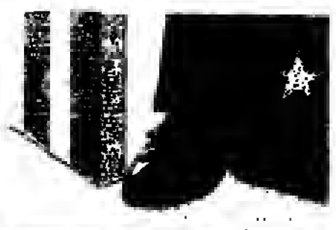
FINANCIAL TIMES



Investment banking
Europeans aim for the major leagues
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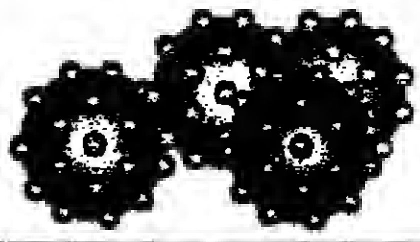

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World Business Newspaper

THURSDAY JULY 11 1996

Church leaders in attempt to stop Ulster violence

Politicians and church leaders in Northern Ireland made desperate moves last night to resolve the growing crisis between Protestant marchers and police that has brought the province close to paralysis. Fears of increased violence grew as the Orange Order's annual marching season reaches its peak tonight, after four nights of mayhem in which towns have been blockaded and some Roman Catholic families hounded out of their homes. Page 12; Protestants under peace spotlight, Page 7

China airliner project: China has chosen a European consortium, Aero International Regional, as its western partner in a controversial project to build a 100-seat airliner. Page 12

Japan's PM threatens to snub Yeltsin

Japanese prime minister Ryutaro Hashimoto (left) threatened not to attend the inauguration as Russian president of re-elected Boris Yeltsin if the ceremony is held on August 9. This day, evoking bitter Japanese memories of unfinished hostilities between the two countries in the second world war, is the 51st anniversary of the Soviet Union's invasion of Japanese-held Asian territory late in the war. Page 12

£80m expansion by Honda: Honda and Unipart, vehicle parts and accessories group formerly owned by Rover Group, are to set up three joint component manufacturing companies in the UK. Together with another planned joint venture involving German plastics group Kantex, they will create 400-500 jobs and involve total investment of just over £80m ($124m). Page 7

Oil groups in additives tie-up: Shell and Exxon, the western world's largest oil companies, are to pool their petroleum additives businesses in a move that will give the combined unit a quarter of the $6bn a year international market. Page 13

Bonn looks to lower rates: Germany's 1997 federal budget would create more scope for private initiative in the economy and set conditions for lower interest rates, finance minister Theo Waigel said. Page 2

Fuel rises stir Indian MPs' anger: India's five-week-old United Front government ran into protest at the opening of parliament from Congress party and Bharatiya Janata party MPs over last week's rise in administered fuel prices. Page 6

Briton in alleged blackmail plot: A computer company executive from Nottinghamshire, central England, appeared in court in Austria after being arrested over an alleged £250,000 ($390,000) supermarket blackmail plot.

OECD sets Seoul conditions: South Korea has been told by the Organisation for Economic Co-operation and Development to further liberalise its economy before it will be allowed to join the Paris-based body. Page 4

Dixons, the UK's biggest electrical retailer, provided fresh evidence of rising consumer confidence as it reported a 35 per cent jump in profits before tax and exceptionals and a strong start to the current year. Page 17 and Lex

Telekom Malaysia, the former state monopoly, plans to invest M$5bn (US$2bn) over eight to 10 years to lay the infrastructure for a "multimedia super corridor" to link high-tech groups between Kuala Lumpur and an administrative capital, Putrajaya, still under construction. Page 15; Swiss power groups in telecoms venture

UK banks' overseas earnings: UK banks' net overseas earnings fell £7.5bn ($11.7bn) in 1994 to £6.2bn last year because of increased foreign ownership, lower overseas lending and reduced income from overseas interest rate derivatives. Page 7

Beef-cutback measures urged: Urgent measures are needed to cut beef production in the European Union in the wake of the "mad cow" crisis, agriculture commissioner Franz Fischler warned. Page 7

Spain's unions resist state sell-offs: Some 10,000 trade unionists from state-controlled companies protested in Madrid against the ambitious privatisation programme unveiled last week by Spain's new centre-right government. Page 2

China leads in contraceptive use: China heads the world use of contraceptives, with 83 per cent of Chinese married couples using them, according to a study released by a UK charity. Page 7

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,551.25	(-30.66)
NASDAQ Composite	1,138.33	(-15.26)
Europe and Far East		
CAC40	2,81[illegible].85	(+5.28)
DAX	2,57[illegible].43	(+5.29)
FT-SE 100	[illegible]	(+13.0)
Nikkei	21,778.94	(-140.88)

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.261%
Long Bond	[illegible]
Yield	7.114%

■ OTHER RATES

UK: 3-mo Interbank	5¾%	[illegible]
UK: 10 yr Gilt	[illegible]	[illegible]
France: 10 yr OAT	[illegible]	[illegible]
Germany: 10 yr Bund	[illegible]	[illegible]
Japan: 10 yr JGB	[illegible]	[illegible]

■ NORTH SEA OIL (Argus)

Brent Dated	$19.81	(19.71)

■ GOLD

New York Comex (Aug)	$384.4	(383.5)
London close	$383.85	(382.9)

■ DOLLAR

New York lunchtime		
DM	1.5[illegible]	
FFr	5.1[illegible]	
SFr	1.2[illegible]	
Y	110.[illegible]	
London		
DM	1.5[illegible]	(1.5517)
FFr	[illegible]	(1.5233)
SFr	[illegible]	(5.1573)
Y	[illegible]	(1.2808)
	[illegible]	(110.24)

■ STERLING

DM	2.3[illegible]	(2.3637)
Tokyo close	Y 110.85	

[illegible: cover prices by country]

Deutsche builds up 5% stake in rival ■ Shares within industry rise

Bank mergers loom in Germany

By Wolfgang Münchau in Frankfurt

Deutsche Bank, Germany's largest bank, has built up a 5.21 per cent stake in Bayerische Vereinsbank worth some DM500m ($328m) in a move seen as foreshadowing a wave of mergers in German banking.

Until now, German banks have very rarely taken stakes in rivals. But the removal of trade barriers in European Union banking markets and the prospect of the introduction of a single currency within three years have aroused concern about the industry's competitive strengths.

German banking is highly fragmented, with more than 4,000 active institutions. Deutsche is Germany's largest bank but holds only a 6 per cent share of domestic retail business.

Deutsche said the purchase was an "attractive investment" and that it did not intend "to wield corporate influence". The assurances, however, were widely disbelieved in financial markets, which interpreted the move as a cautious start to a robust consolidation process likely to stretch over several years.

The news lifted the shares of the entire banking industry on speculation that other banks might follow suit. Vereinsbank shares gained 4.4 per cent to DM44.35, while Hypobank shares increased 5.5 per cent. Deutsche shares gained less, ending up only 1 per cent at DM73.20.

Vereinsbank is deeply rooted in Bavaria, although it has expanded into other regions and new technologies, and is Germany's largest mortgage lender. For Deutsche the move marks another step in a process of change which began with the acquisition of Morgan Grenfell, the UK merchant bank, in the late 1980s and continued to its wide-ranging internal reorganisation announced on Tuesday.

At the annual meeting in May, Mr Hilmar Kopper, chairman, gave an ambitious definition of Deutsche's corporate goals.

"We want to maintain our position as Germany and Europe's leading bank, and to be part of the world's top ten; we want to become Europe's leading investment bank and close the gap with the world leaders; we want to retain our prime rating for the whole bank," he said.

Mr Stephen Lewis, European banking analyst at Union Bank of Switzerland, said: "Deutsche Bank seems to have put its foot in the door. When this process [of consolidation] happens, it wants to be in the right place. It is not making this investment to make a few D-Marks profit."

The federal cartel office said it would not investigate the purchase. However, observers believe that an investigation would be inevitable if Deutsche was to increase its stake markedly or if it proposed closer domestic co-operation.

It was unclear yesterday whether Vereinsbank's management was informed about Deutsche's announcement. "We are going to pursue the strategies that we pursued previously. We regard [Deutsche Bank's share purchase] as a confirmation of our business policy," said Vereinsbank.

A Bavarian foundation owns a 10 per cent shareholding in Vereinsbank and Viag, the utility group, has around 5 per cent.

Rush for big league, Page 11
Lex, Page 12

Yeltsin looks to bring new faces into government

By John Thornhill in Moscow

President Boris Yeltsin, in a halting, nationally televised address, yesterday called for "serious corrections" to economic reform to revive industrial production and improve living standards in Russia.

In his first appearance for a week, Mr Yeltsin renominated Mr Victor Chernomyrdin as prime minister and said the recent presidential elections had been an important lesson in highlighting "his own drawbacks and the government's mistakes".

It was now essential to give industry "a second wind" to provide people with work and increase the prosperity of every Russian family, he said.

But the short and carefully edited television footage of Mr Yeltsin did little to allay fears about the 65-year-old president's health. He still does not appear to have fully recovered after an exhausting re-election campaign.

The president, due to be inaugurated on August 9, suggested he would include new "professionals" in his reconstituted government, which he must submit to parliament for approval. "Innovative, competent and fresh people must enter the government," he said.

Political observers suggest Mr Yeltsin may try to broaden his political support by offering cabinet posts to representatives of the liberal Yabloko grouping, headed by Mr Grigory Yavlinsky, the radical economist and defeated presidential candidate.

However, Mr Yeltsin's decision to reappoint the stolid Mr Chernomyrdin signals the president's commitment to persevere with the broad thrust of economic reform and will reassure local and foreign business executives.

The prime minister's influence in the Kremlin appears to have strengthened greatly since Mr Yeltsin's decision to crush the hardline Kremlin faction clustered around Mr Alexander Korzhakov, his confidant and bodyguard.

But Mr Yeltsin appears keen to counterbalance Mr Chernomyrdin's weight by promoting Mr Alexander Lebed, the former army commander, as the secretary of the security council and entrusting him with wide powers to crack down on law and order.

"The struggle against corruption in all echelons of power will be the most important direction of my work," Mr Yeltsin said yesterday.

After suppressing stories about scandal in the run-up to the presidential elections, Russia's national newspapers have this week splashed with allegations about corruption in the defence ministry and within the Kremlin itself.

Chechen HQ bombed, Page 8
Hashimoto snubs Yeltsin, Page 12

South African president Nelson Mandela (right) greeting a member of the South African Music Village at a tree-planting ceremony at St James's Park, London, during a state visit to Britain.

On the second day of his trip, Mr Mandela urged Britain's business leaders to destroy the legacy of apartheid by improving trade links and boosting investment in his country. He secured a pledge of £60m ($93.6m) of additional aid from Mr John Major, the prime minister, primarily for education projects.

Heineken abandons Burma venture over human rights

By Gordon Cramb in Amsterdam

Heineken of the Netherlands yesterday pulled out of a half-built brewery venture in Burma and said it would also halt exports to the country in response to international pressure over human rights.

"Every billboard in the country will come down. Out is out," the Amsterdam-based group said yesterday.

Heineken's move follows Tuesday's decision by Carlsberg of Denmark to drop out of a rival project and deals a further blow to Burma's military rulers, who have been seeking inward investment by western multinationals.

It follows the intensification of a US campaign calling for a boycott of products made by companies doing business in Burma, which is now called Myanmar by the ruling state law and order restoration council, Slorc.

Heineken, the leading foreign brand in the US beer market, was vulnerable to such pressures. Mr Karel Vuursteen, chief executive, said that since its decision to enter Burma 18 months ago, "public opinion and issues surrounding this market have changed to a degree that could have an adverse effect on our brand and corporate reputation".

Heineken is to sell its indirect 25.5 per cent stake in Myanmar Brewery to Fraser and Neave, the Singapore brewer of Tiger beer which has long been its main Asian partner. Both brands were to have been produced at the more than half-built plant in the Burmese capital Rangoon, which was due to have opened this year.

PepsiCo of the US earlier this year agreed to sell its stake in a Burmese cola bottling franchise after losing several US supply contracts, including college campuses. But the soft drinks group is still under pressure because it supplies syrup to the factory for production under licence.

Heineken's $30m project was further forward than Carlsberg's, which was at the advanced planning stage. The Dutch brewer said it had been swayed by public opinion and its own trade unions.

Ms Aung San Suu Kyi, the Burmese opposition leader whose National League for Democracy's election victory six years ago was annulled by the military, has urged foreign companies and tourists to stay away while Slorc retains its grip. Slorc-controlled companies were local partners in each of the brewing ventures.

The US boycott has been led by the Boston-based Franklin Research and Development Corporation, which manages about $500m in ethical investment funds. Mr Simon Billenness, senior analyst, depicts Burma as "the South Africa of the 1990s", saying trading partners will come under increasing consumer pressure. Oil companies are another target for campaigners. California-based Unocal, together with Total of France, is building a pipeline to export offshore natural gas to Thailand. Texaco and Arco are negotiating with Slorc offshoots.

Suu Kyi exile hint, Page 6

Banks urged to overhaul data flow for Emu

By Gillian Tett in London

Urgent changes in the way Europe's 15,000 banks and building societies report financial flows were demanded yesterday by the forerunner to a European central bank.

The European Monetary Institute warned that without better statistics, the central bank would not be able to run effective monetary policy after the switch to European monetary union planned for 1999.

However, the UK is refusing to implement the changes, which will increase the reporting burden on financial institutions, arguing that they are too costly and complex.

Although other European Union member countries have agreed to make the changes, some complain they are too closely influenced by the Bundesbank, the German central bank.

A French banking official said the proposed new system seemed closely based on that in Germany, and would "certainly force French banks to make major changes".

But German officials insisted that the system would also force changes on German financial institutions.

EU countries currently use different methods for gathering information on money supply and balance of payments. While this system is acceptable for domestic policy, it will make it impossible for the future European central bank to gather accurate data across the single currency area.

The EMI is demanding that central banks harmonise the figures, with most countries giving more information. Financial institutions, for example, will have to supply monthly data, rather than quarterly figures used in countries such as France.

Banks will also have to provide information on the maturity of assets – data which are not provided at the moment in the UK and France. They will also have to break down financial flows between EU and non-EU categories.

Banking officials admit the

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Warning on tax burden for investors

By Robert Taylor, Employment Editor

High tax and social security burdens on employers are likely to discourage potential investors and increase unemployment in Europe, Deloitte Touche Tohmatsu International, the global accountancy firm, said yesterday in an analysis of comparative employment costs across 17 European countries.

There is currently "no clear link" between unemployment and wage costs across the continent, with some countries having low unemployment and high wage costs and vice-versa, said Ms Ellie Patsalos, the company's international personal tax service manager last night.

But she said that many of the large companies interviewed for the survey had expressed concern about employment costs and "intend to take these costs increasingly into consideration when deciding where to invest abroad".

Germany has the highest labour costs for production workers, said the report. It found that the average cost of employing a production worker in Germany was a total of $40,000 a year, when social security contributions were added to wages.

The country with the lowest total costs was Portugal – at $10,000 a year. The UK was 11th in the league – employer's payroll costs per average gross wage amounting to $24,000 a year.

"European Commission figures show between 1980 and 1993 the overall tax rate on employees grew by about 20 per cent. Inevitably this trend puts employers under pressure to increase wages rather than create new jobs," said Ms Patsalos.

The report said social security costs were the main burdens for employers but pension schemes, holiday pay, redundancy payments and collective agreements were also "significant expenses."

The survey said there was a link between high labour costs and unemployment in Finland, Denmark, Italy and France, while Iceland and Portugal had low unemployment and low labour costs. But Spain, Greece and Ireland had low labour costs but high jobless rates.

But it also found unemployment was low in Austria, Norway and the Netherlands although those countries have high payroll costs to employers.

The survey found wide variations in the percentage of wages workers actually take home. In Finland workers receive 68 per cent of their wages after government deductions but in Spain the figure is 90 per cent. The figure in Germany is 78 per cent compared with 75 per cent in the UK, 80 per cent in France and 90 per cent in Spain.

British, Dutch and Norwegian workers make some of the lowest pension contributions (4.6 per cent) compared with over 10 per cent in most western European countries.

The Hidden Costs of Employment. Free from Deloitte Touche Tohmatsu, Verulam Point, Station Way, St Albans, Herts AL1 5HE.

Spanish unions in threat to state sales

By Tom Burns in Madrid

The economic policies of Spain's new centre-right government met their first important challenge yesterday when some 10,000 trade union officials from state-controlled companies gathered in Madrid to condemn the ambitious privatisation programme unveiled last week.

"Either the government changes its policy or we will change the policy for it," said Mr Antonio Gutiérrez, leader of the Workers Commissions (CCOO) union federation, as delegates chanted slogans backing a general strike.

The threat of a government-union confrontation coincided with encouraging economic data, however. Registered unemployment fell by 171,999 between April and June, the biggest second quarter fall since 1988, to bring the registered jobless total down to 2.2m, 14.15 per cent of the labour force. Also, while industrial prices went up in May by 0.1 per cent, the year-on-year rise fell from 1.7 per cent to 1.5.

The combative mood at yesterday's mass meeting, which was organised by the CCOO and the UGT General Workers Union – the two main union confederations – was a clear warning to Mr José María Aznar, the prime minister, that the planned rapid sale of public companies will be met by industrial action.

The disposal of shareholdings worth an estimated Pta3,000bn ($23bn) over the next four years is the cornerstone of the government's bid to whittle down the public deficit and make Spain eligible for European monetary union.

Public sector companies employ more than 200,000 people, the vast majority of whom are union members. Union leaders are increasingly concerned about what they allege is a secret government agenda of swingeing spending cuts and new rules on hiring and firing.

Under the auspices of a "social pact" launched by Mr Aznar shortly after he took office in May, unions are have discussions with employers and government officials on a range of issues, including the social security budget and labour market regulations. Mr Gutiérrez said yesterday that those talks would be broken off if the government persisted in its "ideological offensive" against the public sector.

Unions fear job cuts in companies that are privatised and that the government, which faces an annual bill of Pta1,000bn in subsidies to loss-making concerns, could close companies it cannot sell.

The main union concern is with government initiatives in areas such as unemployment and disability pay, and pensions.

Officials claim there is considerable fraud in the social security sector – a recent study alleged that 5 per cent of total payments were irregular.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850. Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY: Responsible for Advertising Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg (ISSN 0174 7363). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE: Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN: Responsible Publisher Hugh Carnegy 468 618 6088. Printer AB Kvällstidningen Expressen PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

Welfare benefits and job security for German workers such as these could be cut under legislation presently in parliament Tony Andrews

German Länder cast shadow over Kohl's sunny outlook

Growth and jobs programme is progressing but big problems lie in wait, writes **Peter Norman**

Chancellor Helmut Kohl has been in a notably good mood in recent days – with some justification.

Yesterday's cabinet approval of next year's draft federal budget was a further step towards realising the government's programme for reducing spending, restructuring the welfare state, cutting taxes and making Germany more competitive.

It followed a fortnight in which the Bundestag, the lower house of parliament, approved controversial bills to cut sick pay, make economies in the health service and lower the burden carried by the state pension system as part of government plans to cut federal spending by DM25bn ($16bn) next year.

Efforts to deregulate the economy have also progressed. The Bundestag has voted to relax legal protection against dismissal for workers in small enterprises with the aim of making the labour market more flexible. A much delayed bill to liberalise shop opening hours cleared its final parliamentary hurdle last Friday.

However, Mr Kohl and Mr Theo Waigel, his finance minister, will need all their political strength for the months ahead. For progress on those parts of the "programme for more growth and jobs" that are the responsibility of the federal government has been matched by reverses in areas where the states, or *Länder*, have a decisive say.

The Bonn political calendar bears witness to the strain. The end of the budget cabinet normally signals the start of a two-month summer "silly season" in Bonn. Not so this year.

The Bundesrat, the opposition-dominated second chamber of parliament representing the states, meets in special session on July 19 and has already made clear that it will refer the bills just passed by the Bundestag to the conciliation committee of both houses.

In the final August week, parliamentarians will return from their summer breaks two weeks early for the conciliation procedures and special sessions of the Bundestag and Bundesrat before the proper autumn parliamentary session gets under way on September 10 with a first reading of the budget.

The Bundesrat can only delay the DM440.2bn worth of spending plans in the federal budget. Similarly, because of the way the government has structured its bills to change the health service, sick pay, pensions and employment protection, Mr Kohl should be able to push this legislation through parliament against any Bundesrat objections, provided the coalition's absolute majority in the Bundestag holds firm. These bills are due for their final parliamentary approval in the Bundestag on September 13.

However, the *Länder* have far greater powers over the revenue side of the federal budget. Uncertainty also surrounds the states' ability, or willingness, to come up with DM26bn of spending cuts of their own for next year to match the DM25bn of federal economies and the DM20bn savings to be made by Germany's social insurance funds.

Mr Waigel has forecast tax revenues of DM350.3bn in next year's federal budget, which, with other income of DM33.4bn, will leave a federal borrowing requirement of DM56.5bn.

But the projected tax income anticipates real growth next year of between 2 and 2.5 per cent and assumes that widespread tax changes, including a reduction in the solidarity surcharge used to finance eastern Germany and other legislation to reform company taxes, will become law.

Last week's first reading of the tax bill in the Bundesrat produced howls of protest against the finance minister's plans. In particular, the proposal to abolish wealth tax, which provides annual revenues of DM8.5bn for the states, was strongly opposed by the Social Democrat-controlled majority in the second chamber. But states governed by Mr Kohl's Christian Democratic Union also raised objections, with Saxony opposing the bill's provision to delay for one year a planned increase in children's allowances which is due to save the federal government DM3bn in 1997.

The Bundesrat sent the tax bill back to the Bundestag with requests for changes in nearly all its provisions. Protracted wrangling is now in prospect, with a compromise unlikely before December.

Meanwhile, the Länder have failed to agree a DM26bn austerity package of their own after Mr Oskar Lafontaine, the premier of Saarland and leader of the Social Democrat party, mobilised resistance to the plan among SPD-led state governments.

The apparent demise of this initiative will make it more difficult for Mr Waigel to achieve his goal of a domestic stability pact in which Germany's federal, state and local authorities would work together to bring the overall government deficit below the Maastricht treaty ceiling of 3 per cent of gross domestic product.

On the other hand, the states need to economise as much as the federal government, so some savings by the Länder are certain. Mr Waigel said yesterday that the modest 1997 public sector wage settlement would save the states about DM13bn. Moreover, recent votes in the Bundesrat, such that on July 5 liberalising shopping hours, show the SPD cannot always impose party discipline on the state governments controlled by the party.

The government's eventual success with the shopping hours law helps explain Chancellor Kohl's confidence that the measures to boost growth and jobs will overcome the legislative hurdles and enter into law. Whether they will be adequate to meet his goal of halving unemployment by the end of the century is far less clear.

Bonn's budget: making Germany more competitive

DM bn	Plan 1996	Draft 1997	Medium-term financial plan 1998	1999	2000
Spending	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
% change on previous year		-2.5	+1.6	+2.6	+2.2
Revenues					
Taxes	351.2	350.3	357.3	372.8	389.2
Other	40.2	33.4	33.8	30.5	30.9
Net borrowing	59.9	56.5	[illegible]	[illegible]	[illegible]

Differences possible through rounding

Germany's 1997 federal budget will create greater scope for private initiative in the economy and set conditions for lower interest rates, Mr Theo Waigel, the finance minister, said yesterday, writes Peter Norman.

Presenting his plans for a 2.5 per cent cut in federal spending to DM440.2bn ($290bn) next year and a reduction in the planned federal deficit to DM56.5bn from DM59.9bn in 1996, the minister said the budget would contribute to growth and employment.

He said the draft, approved by the cabinet yesterday, was "responsible". Its long-term benefits would outweigh any short-term reduction to demand caused by spending cuts.

Mr Waigel said prospects for economic recovery were good. The federal statistics office reported yesterday that the pan-German year-on-year inflation rate touched a record low of 1.4 per cent last month, down from 1.7 per cent in May.

The cabinet also decided yesterday to freeze ministers' salaries next year. Details released by the finance ministry showed Bonn is aiming for strict control over public spending in the medium term, with outlays set to rise by an average 1 per cent a year in the five years from 1996 to 2000 inclusive, compared with an expected 4 per cent average yearly increase to nominal gross domestic product.

Prodi may have to yield on economy

By Robert Graham in Rome

Italy's new centre-left government is wooing the Marxist Reconstructed Communism party in an attempt to ensure a parliamentary majority for its economic programme.

With the opposition committed to vote against it, Mr Romano Prodi's Olive Tree alliance government may have to make concessions to RC on the level of agreed wage increases, as well as on the amount of money to be devoted to job creation.

The move to win the support of RC follows the rejection of the government's three-year macroeconomic programme in four out of eight committees in the chamber of deputies on Tuesday and in another yesterday. RC, formed from the hard line of the old Communist party, voted with the opposition on each occasion.

Although the opinion of these committees is purely consultative, the stance taken by RC has underlined the potential power of blackmail that the party can exert on the policies of a government that relies on it for a majority.

The key test will come today when the budget committee considers the 1997 budget outline in the three-year programme which aims to bring Italy within the convergence criteria for European monetary union by 1998 – a year later than the Maastricht treaty timetable.

The committee's opinion, and amendments, provide the basis for debate in the full house.

After a meeting yesterday of the centre-left parties in parliament, it was decided to introduce a specific reference to the government's economic policy document backing the introduction of "some compensatory mechanism" to allow wages to recoup lost earnings power.

This has been one of the fundamental demands of RC, backed less vociferously by the Party of the Democratic Left, the main partner to the Olive Tree alliance.

Until now the government has been reluctant to allow wage contracts to go above the 2.5 per cent inflation target for 1997 and has sought limit, if not exclude, any catching up on lost earning power over the past three years.

The meeting also endorsed another RC request to give a higher profile to fighting joblessness.

The parties agreed that the aim of raising employment by a full percentage point over the next three years was too modest. Instead, unemployment needed to be treated as an emergency.

RC itself has been pressing for a special fund of at least L16,000bn ($10bn) to tackle unemployment.

The one area in which RC demands were directly rebuffed at yesterday's meeting concerned the balance between spending cuts and new fiscal measures in the 1997 budget. RC wanted to shift the emphasis away from spending cuts towards the fiscal side.

Overhaul urged for EU's VAT system

By Neil Buckley in Brussels

The European Union's value added tax system needs a "complete overhaul" in preparation for European monetary union, the European Commission said yesterday.

The call came from Mr Mario Monti, single market commissioner, as he relaunched his controversial attempts to harmonise treatment of VAT, setting out a programme of phased reforms through to mid-1999 – by which time the euro is due to be in operation.

Reform of the VAT system is highly sensitive for both the Commission and member states. Squabbles within the Commission led to the departure late last year of Mr Peter Wilmott, director-general for customs and indirect taxation.

Change is likely to be resisted by many member states – making the chances of getting the required unanimous vote among ministers slim. But Mr Monti said yesterday his programme tried to take account of member states' concerns, and Brussels would use "all its persuasive powers".

Any extension of qualified majority voting to fiscal matters as a result of the ongoing intergovernmental conference on revising the workings of the EU could also make it easier to get VAT changes approved.

"We are all aware the tax field is fraught with difficulties," Mr Monti said, "but the need is increasingly felt to improve the competitiveness of European firms by simplifying the system, cutting costs, and to give national administrations adequate guarantees (on tax collection) at a time when they are trying to cut deficits."

His three main proposals were:

■ To make businesses pay VAT on cross-border transactions in the country of origin rather than the country of destination. The Commission says this would cut administrative costs for companies and make it easier to apply VAT rules.

■ To harmonise VAT rates progressively. Mr Monti believes making businesses pay all their VAT in one member state, rather than in several, will make it essential to bring tax rates closer together to avoid businesses in low-taxation states having an unfair advantage.

■ To modernise and standardise the scope of VAT, who would pay and who would be exempt, and rules on tax deductions.

The European Commission has revised turnover thresholds above which it believes it should have exclusive rights to vet merger cases. It now probes mergers with total turnover of Ecu5bn ($6.3bn) and EU turnover of Ecu250m, but has proposed lowering these to Ecu2bn and Ecu100m respectively. After consultation with member states it proposes it should vet any case above the lower threshold which would otherwise involve three or more national competition authorities. For other cases, it suggests thresholds of Ecu3bn and Ecu150m.

EUROPEAN NEWS DIGEST

Change in EU truck charges

Mr Neil Kinnock, the European Union's transport commissioner, is proposing to replace standard charges for road freight hauliers – so-called Eurovignettes – with variable charges according to the age of trucks.

Since 1993, members states have had the right to impose charges on heavy trucks for using road networks, a system already adopted by Germany, the Netherlands, Denmark, Belgium and Luxembourg. Mr Kinnock wants to change the system from a flat rate to variable charges according to the amount of damage vehicles cause to the road infrastructure. Vehicles would be classified in three categories: pre-1988; post-October 1993, when new pollutant standards were imposed on trucks; and post-October 1996.

The Commission says that the system would result in an overall average increase in charges of 23 per cent. This is much less than the industry had expected. Mr Kinnock had earlier said he wanted to impose big increases to reduce traffic congestion. *Neil Buckley, Brussels*

Brussels raids film distributor

European Commission officials have raided the offices of the film distributor United International Pictures following complaints from cinema operators that the company was abusing its dominant market position in the European Union.

A series of raids were launched on UIP's offices in London, Paris and Brussels last week to seize documents. Cinema groups have complained for several years that UIP, which distributes films on behalf of Paramount, MCA and MGM, was imposing restrictive conditions. These included forcing cinemas to accept film packages if they wanted to show blockbusters.

A Commission official said yesterday the competition authorities had come to no conclusion about whether UIP's behaviour was anti-competitive but had decided that they should obtain the necessary documents to investigate. He could not say how long the inquiry would last.

UIP said it was "surprised" by the raids, and claimed to have given the Commission "voluminous" information in response to previous inquiries. It denied forcing cinema operators to accept block bookings. *Neil Buckley*

Kuchma warns on economy

Ukraine's president, Mr Leonid Kuchma, yesterday won parliamentary approval for his prime minister and called for "an emergency regime" to right the economy and ensure that hundreds of thousands of unpaid workers received their wages.

Deputies overwhelmingly approved Mr Pavlo Lazarenko (pictured left), a former farm boss who has served in the post since May. Mr Kuchma told deputies that "the situation in the economy is critical. Most people's state of being has been stretched to the very limit". He said the government would draw up a list of measures "introducing an emergency regime in the economy without an overall state of emergency in the country". Mr Lazarenko said Ukraine had to reverse the fall in industrial production since independence in 1991, speed up sluggish privatisation and take tough measures to keep the budget deficit within the 4 per cent limit of gross domestic product set by western financial institutions.

In eastern Ukraine, 200,000 coalminers are reported to have joined a strike demanding unpaid wages. Mr Lazarenko said unpaid wages in Ukraine totalled the equivalent of $1.4bn. "Some industries have a backlog of wages of three to four months," he told deputies. *Reuter, Kiev*

Slovak anger over minority

Slovakia yesterday summoned the Hungarian ambassador to explain his government's support for a conference last week that called for autonomy for ethnic Hungarians living outside the country.

The Slovak government accused Budapest of breaching a bilateral friendship treaty after Hungarian government officials added their signatures to a statement issued by the conference which said that autonomy was essential to preserve the identity of ethnic Hungarians abroad "and for their survival". A foreign ministry spokesman in Budapest said Slovakia's reaction was "exaggerated and unwarranted".

Slovakia is home to some 570,000 ethnic Hungarians whose fate is a constant source of friction with Hungary. Last year, the countries signed a treaty, later ratified by both sides, that appeared to set aside disagreements on the minority issue, but diplomats said it was being interpreted in different ways by each government.

Vincent Boland, Prague and Kester Eddy, Budapest

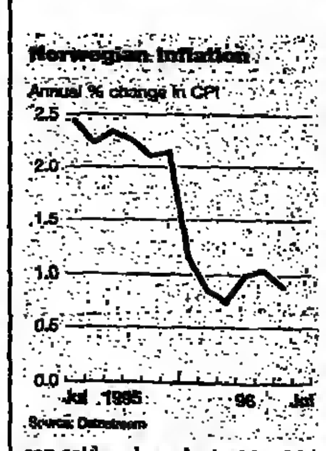
Bonn eases arms export rules

Germany has eased its restrictions on arms exports to help promote co-operation between its industry and European and allied weapons manufacturers. Bonn will rely in future on the export approval procedures of allied governments to cases where a German company supplies components for a joint arms project. Until recently, it has insisted on a prior agreement with the partner government over countries to which arms should not be delivered.

The economics ministry said that German exporters would still have to inform Bonn about the destination of arms containing German components. Germany also reserved the right to raise reservations about any exports to third countries with the government of the arms exporting company. *Peter Norman, Bonn*

ECONOMIC WATCH

Norway's inflation falls again



Inflation continues to fall in Norway, despite robust economic growth and increasing employment. The annual rate narrowed to 0.9 per cent for the month ending June 15, down from 1 per cent in mid-May and 2.7 per cent a year ago, according to the state statistics agency. Statistics Norway said inflation dropped as lower fuel prices helped to offset increases in rent, food and charter travel prices. Producer price growth also slowed, from 0.6 per cent to 0.3 per cent, giving a year-on-year increase of 1.2 per cent. Norway's economy can seldom have looked healthier: the government forecasts a 1996 budget surplus of NKr24.9bn ($3.8bn) and the central bank has projected gross domestic product growth this year of 4.75 per cent, amid booming oil and gas revenues and buoyant domestic demand. Unemployment is set to fall to 4.25 per cent and to 4 per cent in 1997. Yet the danger of overheating remains, with the central bank and OECD warning last month of excessive wage growth. *Greg McIvor, Stockholm*

■ Denmark's current account surplus fell to DKr1bn ($170m) in April from a revised DKr1.1bn surplus in March.

■ Italian industrial turnover rose 5.3 per cent year-on-year in April, while orders rose 0.3 per cent.

Russia bombs Chechen headquarters

By Chrystia Freeland in Moscow

Russia yesterday shattered the fragile Chechen ceasefire which helped to secure President Boris Yeltsin's re-election, unilaterally breaking off talks with the separatists and bombarding the headquarters of their leader.

Zelimkhan Yandarbiyev, leader of the Chechen fighters: two months ago he was Mr Yeltsin's guest in the Kremlin

The aggressive moves are likely to provoke a new outburst of heavy fighting in the battered region and threaten to discredit Mr Yeltsin less than a week after his resounding victory over the Communists at the polls.

General Vyacheslav Tikhomirov, Russia's military commander in Chechnya, said that as of yesterday Russia had broken off all political contacts with the Chechen separatists and targeted fire on the village where Mr Zelimkhan Yandarbiyev, the leader of the Chechen fighters, is thought to be based.

Just two months ago Mr Yandarbiyev was Mr Yeltsin's guest in the Kremlin in a highly publicised meeting which brought a delicate truce to the war-torn region and inaugurated a series of more substantive negotiations.

On the eve of the presidential election Mr Yeltsin sought to consolidate his image as a man of peace by ordering the withdrawal of Russian troops from Chechnya.

Gen Tikhomirov's announcement coincided with intense Russian air and artillery attacks on at least two Chechen towns, including the one where Mr Yandarbiyev was believed to be temporarily based.

Local officials said that dozens of Chechen civilians had already been killed in the fresh eruption of fighting which began on Tuesday.

Russia's reversion to bellicose tactics in Chechnya so soon after Mr Yeltsin's election provoked anguished protests from liberal politicians and journalists who had been the president's most stalwart allies during his campaign to remain to office.

This sense of betrayal was most stridently voiced by Mr Konstantin Borovoi, an arch-liberal parliamentarian, in a statement drafted for debate in the legislature yesterday.

"If military action in the Chechen republic is not quickly stopped, then on August 9 (the president's inauguration day) the people of Russia will receive the right to name Yeltsin not a new president but 'a liar and a killer'," Mr Borovoi's draft said.

Although parliament rejected Mr Borovoi's harsh comment, it reflected the Russian liberal elite's fear that, with the elections safely behind him, Mr Yeltsin has reverted to the crude policies which had made him one of Russia's most unpopular politicians just six months ago.

However, uncertainty about Mr Yeltsin's health has made it difficult to determine who has taken the decision to jettison the peace process and restart the war in Chechnya.

Some military observers have laid the blame squarely at the feet of Gen Tikhomirov, a hawkish officer who has been opposed to talks from the outset. But others believe the general must have received approval from Moscow.

Srebrenica: 'scene from hell' that drove Bosnia to peace

A survivor recalls an atrocity which today, a year later, is still marked by some haunting unanswered questions

Mr Hurem Suljic is a gaunt Bosnian farmer who looks older than his 56 years as he hobbles about his garden in a village outside Sarajevo, recently abandoned by the Serbs.

His voice is strong but impassive as he describes surviving Europe's worst atrocity since 1945, a chain of ghastly events that began when Srebrenica fell a year ago today.

He remembers the token, last-minute air strike by Nato which failed to stop the Serb armour ploughing its way into the town, one of six UN-protected "safe areas" of Bosnia.

"At first, when I heard Nato's bombers, I thought everything was all right and I went out to do some planting," he recalls. "But then I heard they hadn't hit a thing."

That evening, Mr Suljic and his grand-daughter rode on horseback to the UN camp at Potocari, north of the town, where, he says, up to 30,000 residents were holed up.

About 12,000 of the town's able-bodied men had already embarked on a desperate walk to government-held territory. They had to contend with minefields and Serb attacks with anti-aircraft guns. Many went mad or committed suicide.

But Mr Suljic, as an invalid, took his chances with the women and children at Potocari. This was a mistake: like all the men at the UN base, he was separated from the terrified women and driven away. It now seems that virtually all these male captives were killed in cold blood.

Mr Suljic says he remembers General Ratko Mladic, the Serb commander, taunting the prisoners: "You thought Nato can save you, but Nato can't."

He says that after two nights' confinement, in which many of his fellow captives were beaten to death, he and dozens of others were taken out in trucks to a field where they were lined up in columns of four, a few feet apart.

"I heard machine-gun fire behind me, they were shooting us in the back," he recalls. "A man fell on top of me. He was alive, but then they came round with pistols and started shooting individuals. He was wounded in the neck, bleeding, crying for help. And then he stopped breathing."

The dimensions of the Srebrenica massacre have been pieced together through accounts like that of Mr Suljic, who crawled away and spent five days walking to safety.

The Red Cross reckons that more than 6,000 people are missing. An investigation into 12 mass graves, which began this week, will show how many died in cold blood. The Serbs have claimed that many deaths occurred in combat.

Judge Fouad Riad of the international war crimes tribunal said after sifting the evidence of the Srebrenica massacre: "These are truly scenes from hell, written on the darkest pages of human history."

Yet for all its ghastliness, the fall of Srebrenica – and of nearby Zepa, another Moslem enclave – began a series of events that broke the UN-imposed stalemate and led to the Dayton peace agreement which divided Bosnia roughly to half between a Serb zone and Croat-Moslem federation.

Bosnian officials have never hidden the fact that before Srebrenica's fall, the existence of highly vulnerable Moslem enclaves in the east of the republic was preventing them from breaking the military logjam and rolling back the Serbs. For example in autumn 1994 Bosnia had to soften its demands for an end to the UN arms embargo because it feared provoking a Serb attack on Srebrenica.

The inconvenience to the Bosnian side of the enclaves was bluntly noted by General Rasim Delic, the military commander: "Our government had made many ceasefires, many political concessions in order to save Srebrenica and Zepa."

But there was, it appears, a limit to the willingness of Sarajevo, Washington and several other capitals to go on making concessions for the enclaves' sake.

In April 1995, the commander of the Bosnian forces in Srebrenica, Naser Oric, was astonished to receive orders from his masters to quit the enclave, along with 17 other officers, and never to return.

A Bosnian general, Mustafa Hajrulahovic, defended the decision to withdraw key officers from Srabrenica on grounds that an offensive was imminent and "we had to get ready to evacuate the population and they (the commanders) needed to get their orders".

As for the US government, its low-key stance in the run-up to Srebrenica's fall was in contrast to the diplomatic campaigns it had mounted to stop Serb attacks on two other Moslem enclaves in 1994.

In the words of Mr Michael Williams, former UN spokesman in Bosnia, "the Americans had made a lot of fuss about Gorazde and Bihac, but little about Srebrenica."

"Did the US write off Srebrenica?" asks Mr Andreas Zumach, a German investigative journalist, who suspects that some US officials knew all about its impending fall.

Despite the efforts of investigators, many of Srebrenica's riddles remain unanswered, including that of who knew what and when. As Ms Madeleine Albright, US ambassador to the UN, said when visiting a goulish mass grave: "I find it very difficult to deal with the fact that scores of people must have known what was going on."

Reporting by Bruce Clark, Harriet Martin, Laura Silber and Paul Wood

Investigators exhuming remains in Svrake, near Sarajevo, recently of nine Bosnian Moslems executed by Serb forces in 1992. More exhumations are planned in Srebrenica Reuter

DIPLOMATS UNITED ON KARADZIC REMOVAL

Senior western diplomats agreed in London yesterday on the urgent need to "marginalise" Mr Radovan Karadzic, Bosnian Serb leader, and ensure he is brought to trial by the international war crimes tribunal in The Hague, writes Bruce Clark.

The tribunal is expected to issue an international arrest warrant for both Mr Karadzic and General Ratko Mladic, the Bosnian Serb military commander, today. This could potentially clear the way for a commando operation to arrest them, an idea which has been mooted in Washington.

The diplomats agreed the recent decision by Mr Karadzic to transfer presidential responsibilities to his deputy, Ms Biljana Plavsic, was only a first step towards the Bosnian Serb leader's withdrawal from real power.

They also agreed the "right place for Mr Karadzic is The Hague," according to a Foreign Office spokesman. The diplomats, from the US, France, Germany, Russia, Italy and the EU, agreed it was desirable all political parties participated in forthcoming Bosnia-wide elections.

However Mr Robert Frowick, the US official overseeing the elections, is understood to have stuck to his position that the SDS, a hardline Serb nationalist party, should be excluded as long as Mr Karadzic is its leader.

Erbakan raises state pay in Turkey by 50%

By John Barham in Ankara

Mr Necmettin Erbakan, Turkey's new Islamist prime minister, has announced a 50 per cent pay rise for the country's 1.8m state employees, increasing fears that he will pursue populist policies at the risk of damaging the economy.

"This will be paid for through blessings of God," said Mr Erbakan, dismissing fears of economic damage. "This government is for villagers, workers, the unemployed, the poor, the retired. We did the most we could to help them. Our aim is to bring prosperity for the people."

But he told parliament: "Every sort of income from profiteering should be taxed in an active manner, while easing the tax burden on production factors."

Analysts say the wage rise will add $1.5bn to the treasury's budget deficit this year, bringing it close to $10bn, double last year's gap. Inflation and interest rates could also rise substantially.

With this week's increase the pay of the lowest grade of civil servant should rise to $231 a month – an industrial worker in Turkey is normally paid around $300 a month. Mandarins are to get just under $2,000. The 50 per cent pay increase makes up for inflation of nearly 40 per cent in the first half of the year.

Mr Erbakan denied that the rises would be swallowed up by higher inflation, more taxes or price rises at state-owned companies. He said higher incomes would stimulate the economy, strengthening public finances.

Mr Erbakan's Refah party is the dominant partner in the coalition with the conservative True Path party, whose leader, Mrs Tansu Çiller, has responsibility for economic policy. Mrs Çiller was more cautious than the prime minister yesterday. "Without finding additional resources the pay rises will be taken away" by inflation, she said. The government would search for additional resources to finance the higher wage bill.

Annual inflation is over 80 per cent and real yields on the snowballing domestic debt are 50 per cent a year. Inflation and interest charges look certain to grow, swelling the budget deficit fuelling yet more inflation.

Mr Deniz Gökçe, an influential financial analyst, said: "I do not anticipate any problems until October. But Erbakan cannot continue with this kind of populism." Mr Gökçe said inflation subsides and hard currency revenues rise in the summer, giving the government a breathing space.

AMERICAN NEWS DIGEST

Thousands flee hurricane Bertha

Hundreds of thousands of residents and tourists began evacuating vulnerable coastal areas from Florida to North Carolina's fragile barrier islands yesterday as hurricane Bertha headed toward the US eastern seaboard.

Florida authorities issued evacuation orders for nearly 500,000 residents from Sebastian Inlet to Amelia Island.

The storm spent Tuesday in the open Atlantic after a deadly trek through the eastern Caribbean that killed at least three people in Puerto Rico.

Bertha was downgraded to a category 2 hurricane on Tuesday as maximum winds dropped from 115 mph to 105 mph. But even if the storm turns out to sea it could still cause high waves and erosion on the coast, US forecasters warned. At Cape Canaveral in central Florida, officials at Kennedy space centre hurried to pull the space shuttle Atlantis off its launchpad as a precaution. *AP, Miami and Reuter, Nassau*

Netanyahu foresees drop in aid

Mr Benjamin Netanyahu, the Israeli prime minister, promised the US Congress yesterday that he would begin reducing his nation's dependence on US economic aid. The US provides some $3bn in economic and military aid to Israel each year, more than to any other country.

The promise, part of a wide-ranging speech to a joint meeting of Congress, won a standing ovation from lawmakers and Clinton administration officials who have been making their own promises of US government cutbacks.

Elsewhere in his speech Mr Netanyahu said his country was ready to begin negotiations with the Palestinians on a final settlement. But on Jerusalem, which Arabs aspire to make the capital of a Palestinian state, he reiterated his tough line. "There will never be such a redivision of Jerusalem, never," he said to widespread applause. *Reuter, Washington*

Atlanta taxi fares up by 40%

Atlanta taxi drivers raised fares by as much as 40 per cent yesterday under city-approved legislation that allows them to charge higher rates during the Olympic Games.

The fare for one person from the airport to downtown increased from $18 to $22 under legislation approved by the city council. The flat rate for a taxi ride within the downtown district rose from $5 to $7 – a 40 per cent increase. The surcharge for additional passengers has been doubled.

The fare increases will remain in effect until August 30, more than three weeks after the Olympic Games end on August 4. Olympics officials have said they oppose price-gouging. A Georgia law limits the rates hoteliers can charge during the Games. *Reuter, Atlanta*

Cuban hijacker 'was dismissed'

A Cuban who hijacked an aircraft to the US naval base at Guantanamo Bay in southeast Cuba had been sacked from his job as an interior ministry officer on suspicion of theft, Cuban officials said yesterday.

They said said Mr José Fernandez Pupo was a former lieutenant colonel in the interior ministry. He was dismissed in February on suspicion he had stolen about $50 worth of ministry funds that were meant to be used for food supplies.

Mr Fernandez Pupo forced a small plane on a domestic flight in eastern Cuba to land at the US base on Sunday and then asked for political asylum in the US.

US officials have said he is in the custody of the US Immigration and Neturalisation Service, and have not yet said how the case will be handled. *Havana, Reuter*

President seals pact with Mexico's hardline governors, write Leslie Crawford and Daniel Dombey

Isolated Zedillo trades policy for friends

For Mr Roberto Madrazo, the embattled governor of Tabasco, a year-long nightmare ended this week when state prosecutors absolved him of responsibility for the massive undeclared funds employed by Mexico's ruling party to secure his election victory in 1994.

In reality, Mr Madrazo's reprieve came not with the prosecutor's verdict, but with a single presidential embrace two weeks ago, on the airport tarmac of Villahermosa, the capital of Tabasco and Mr Madrazo's home town.

In the cryptic language of Mexican politics, President Ernesto Zedillo's visit to Tabasco, during an official inquiry into Mr Madrazo's $73m election war chest and alleged ties to money launderers, was interpreted as more than just a show of support for the controversial governor.

Most observers saw the warm embrace as confirmation that Mr Zedillo had sealed a pact with Mexico's hardline governors to win support for his flagging presidency.

After 19 months in office, Mr Zedillo's relationship with the Institutional Revolutionary Party (PRI) is still fraught with tensions. His orthodox economic policies are regarded as an electoral liability, while his efforts to modernise the PRI are viewed with suspicion.

Mr Zedillo's isolation had begun to affect his ability to govern Mexico. No other president has been the target of so many rumours of military coups, palace conspiracies and plots to force his resignation.

Mexico's state governors – powerful overlords, whose fathers and grandfathers were often governors before them – represented the obvious ballast for the president's unstable ship.

Zedillo: good news

To get them on board, however, Mr Zedillo may have been forced to give up much of his reformist agenda.

"I think we will see the gradual abandonment of national talks on electoral and political reforms," says Mr Federico Estevez, director of the social sciences department at Itam university. "Instead, President Zedillo will probably begin to give prominence to law and order issues, and the importance of maintaining social stability."

The opposition Revolutionary Democratic Party (PRD) said Mr Madrazo's acquittal in Tabasco raised questions about President Zedillo's commitment to free and fair elections. "We expected the verdict," Mr Andrés Manuel Lopez Obrador, the defeated PRD candidate in Tabasco, said. "The state prosecutor, after all, owes his job to Mr Madrazo."

Another governor who fought for his political life – but lost – was Mr Rubén Figueroa of Guerrero, on Mexico's Pacific coast. Mr Figueroa was forced to resign in March for attempting to cover up a massacre of unarmed peasants by his state police. Since Mr Figueroa's departure, the state of Guerrero has been convulsed by the appearance of a new guerrilla army, whose exploits can only serve further to undermine the authority of the president.

Yet another governor who has remained unshaken by the president's reformist agenda is Mr Manuel Bartlett, who heads the central state of Puebla.

Mr Bartlett is the very model of a Mexican politician. He has served the PRI for 30 of his 60 years and been rewarded with top ministerial posts in two administrations before returning to his home state as governor in 1993.

As Mexico's interior minister in the 1980s, Mr Bartlett was the government's chief "alchemist", conjuring the votes that were necessary to win the presidency, by the slimmest of margins, for Mr Carlos Salinas in 1988.

But the time-honoured methods which have kept the PRI in power for 67 years landed Mr Bartlett in trouble earlier this year. The conservative National Action Party, emboldened by popular anger at Mexico's economic crisis, accused the governor of vote-buying and election-rigging during Puebla's municipal elections. After much wrangling, some of the more questionable results were overturned.

Mr Bartlett shrugs off the defeat as "opposition blackmail" and defends his vote-winning tactics.

"It is absolutely legitimate to give out [farm subsidy] cheques up to the last day before an election, so that people can see the government is committed to the peasantry and is giving them their due," Mr Bartlett says.

"This is not anti-democratic. All parties do the same in Mexico; even the governors of opposition parties, they behave in exactly the same way."

The only item in Mr Zedillo's agenda which sparks off Mr Bartlett's enthusiasm is, not surprisingly, a presidential initiative to devolve more power to state governments.

More political reform? Mr Bartlett does not see the sense in it. "We [the PRI] gave away seats in Congress to the opposition long before they were strong enough to win on their own; we invented the system of proportional representation; we introduced state financing for all political parties," he says.

"All of this was done courtesy of the PRI. And instead of thanks, what did we get? All-out war."

Mexico's monthly inflation dropped to 1.6 per cent in June, its lowest level in 18 months, to a sign that the central bank's tight monetary policy is beginning to tame the price explosion provoked by last year's depreciation of the peso, Leslie Crawford reports from Mexico City.

Consumer prices rose 15.3 per cent in the first six months of the year, against 32.9 per cent to the first half of 1995.

Most private forecasters expect inflation for the full year to end at between 25 and 30 per cent, compared with 52 per cent in 1995.

Other figures released by the finance ministry and central bank suggest that economic recovery is under way.

Industrial production has shown a consistent improvement since February, with the exception of the construction industry which remains in the doldrums because of the lack of big government projects and the high cost of bank finance. Consumer spending has begun to show a timid recovery, though investment outlays are still below 1995 levels.

Mr Guillermo Ortiz, finance minister, estimates gross domestic product grew by 5 per cent in the second quarter of 1996, at which point the economy would have recovered about half of the production lost during last year's deep recession. The finance ministry has forecast the economy will grow by 3 per cent in 1996, against a 7 per cent contraction in 1995.

Exports in May reached a record $8.04bn, almost 20 per cent higher than a year ago. Mexican industry has also begun to generate a greater demand for imports, which are up by 18 per cent compared with recession-hit 1995.

The trade balance remains healthy, totalling $3.34bn in the first five months of the year. The accumulation of net international reserves, however, remains painfully slow, with the central bank recording only $1.65bn in net reserves at the end of last week.

Powell rules himself out of full-time role for Dole

By Jurek Martin in Washington

Retired General Colin Powell, still seen by some as a potential saviour for the Republican party, yesterday ruled out full-time campaigning on behalf of Mr Bob Dole, the party's presumed presidential candidate.

In a breakfast TV interview, he denied his support for Mr Dole was "tepid", saying: "I will vote for him, I will support him and I will convey, as I go round the country, the reasons that I think he is worthy of that support."

But, he went on, "the specific question that's caused all the speculation is am I going to become a full-time campaigner, on the trail, in the plane, and the answer to that is no, that's not part of my life at this time and that's not what I intend to do".

Gen Powell said he was "willing to consider" a speaking role at the Republican national convention in San Diego, California, in the middle of next month, as has been suggested recently by Mr Newt Gingrich, the House Speaker. But he emphasised that nothing had yet been decided.

He also obliquely criticised Mr Dole for not attending the annual meeting of the National Association for the Advancement of Coloured People (NAACP), which is taking place this week in Charlotte, North Carolina, and which was to be addressed later yesterday by President Bill Clinton.

"I wish he [Mr Dole] didn't have a scheduling conflict," said Gen Powell, who is black, citing the reason given by the Dole campaign for not going to Charlotte. "I think it would have been useful for him to present his views to the NAACP."

The former chairman of the joint chiefs of staff has been in the public eye this week with a series of interviews on publication of the paperback edition of his best-selling memoirs.

In one broadcast on Tuesday with Mr David Dinkins, the ex-mayor of New York City, he was critical of the Republican right wing, saying he did not believe in some of the now "standard postures" on the party he only formally joined last year.

"The Republican party is broader and deeper and more inclusive than you might think from watching the headlines," he told Mr Dinkins. "What I think Senator Dole will have to do is make sure those inclusive, moderate, centrist Republicans are in there supporting him."

Mr Dole now seems to be acting on this advice. Having already risked the wrath of social and religious conservatives by seeking to incorporate a declaration of "tolerance" on abortion in the party platform, on Tuesday he went back on a promise to repeal, if elected, the 1994 ban on the sale of certain types of assault weapons.

"We've moved beyond the debate over banning assault weapons," he told a Virginia rally. "Instead we ought to be emphasising what works," such as improved computerised checks on would-be gun buyers.

But Mr Dole left to his press spokesman the task of making explicit that repeal of the assault weapons ban was "no longer on the agenda". That brought prompt criticism from the Clinton campaign that Mr Dole was refusing to "come clean" and therefore might still be "squarely in the pocket" of the National Rifle Association, the principal pro-gun lobby.

NEWS: WORLD TRADE

Former foes unite in GM bus venture

By Yaroslav Trofimov in Tel Aviv

In an unprecedented business venture between two formerly hostile nations, Jordan's Elba company and Universal Trucks Israel (UTI) have agreed to co-operate in assembling and marketing a 24-seat General Motors minibus.

Under the deal, UTI, the sole dealership for General Motors vans and trucks in Israel, will import GM chassis and ship them to Elba's factory in Amman, where the buses' body and furnishings will be added. The finished minibuses will then be returned to Israel for sale.

Elba already builds bodies for buses based on chassis by Mercedes-Benz.

"As far as I know, this is the first such co-operative effort in the history of Arab-Israeli relations," said UTI's managing director, Mr Doron Lior.

He added that the first prototype bus, which would probably be sold under the name "GMC King", was completed and ready for marketing. He expected the sales – to be launched in a few months – to reach $6m for the first year.

"We are primarily targeting commercial companies which would use these buses for tourists," Mr Lior said. The minibuses are expected to sell for $90,000.

All the sales of the new venture will have to be inside Israel, as UTI's agreement with General Motors bars the company from re-exporting GM components.

According to Mr Lior, while no actual work on the minibuses will be performed in Israel in the coming months, at a later stage UTI plans to establish an Israel-based facility to equip the GMC-Elba vehicles with its own seats and air conditioners.

The minibus venture bas been made possible by the October 1995 Jordanian-Israeli trade agreement, wbicb removed obstacles to trade.

OECD sets hurdle for S Korea

Seoul must free up economy to qualify for entry

By Guy de Jonquières in London and John Burton in Seoul

The Organisation for Economic Co-operation and Development has told South Korea it needs to commit itself to further liberalisation of its economy if its efforts to join the Paris-based body are to succeed.

OECD committees vetting Korea's application have concluded that, despite recent economic reforms, it still does not meet the organisation's codes on capital movements and inward investment.

Officials close to the membership negotiations said Seoul had been given until September to show how it planned to comply with the requirements.

Separately, a dispute has erupted over demands by a growing number of European governments that Seoul give up its attempts to retain indefinitely its developing country status in negotiations on agricultural trade.

However, Korea – with support from some other OECD members – is bitterly resisting. A senior official in Seoul said agriculture was politically so sensitive that his government might withdraw its application to join the OECD rather than renounce its developing country status.

"To accept OECD conditions on this issue is out of the question because it would open a Pandora's box of political problems for the government," he said. "If we made any concessions now, it would probably destroy the already fragile domestic consensus for joining the OECD."

The Korean government has recently expressed confidence that its negotiations have made enough progress for its application to be approved by the OECD's governing council in September, paving the way for membership by the end of the year. However, an official of one OECD government said Seoul was being too optimistic, though he still believed the remaining obstacles could be cleared in the next few months.

"Joining the OECD is proving more difficult in objective terms than the Koreans had thought," said another official. "Giving a simple statement of political commitment will not be enough to ensure membership."

In an effort to boost its application, Korea told OECD members at a meeting last week that it was ready to abolish by the year 2000 its restrictions on foreign portfolio investment and to ease curbs on foreign banks and securities firms.

However, the OECD committees are not satisfied that Korea has done enough to remove restrictions on trade credits and bond transactions, and are also pressing it to lower further barriers to takeovers by foreign companies.

Although Seoul might not be required to meet all the OECD rules on capital movements immediately, members are seeking a firmer timetable for its planned compliance than Korea has so far been willing to give.

Some negotiators believe its reluctance partly reflects government concern about the country's growing current account deficit. But they say Korea also seems generally unwilling to rely on market-oriented policies.

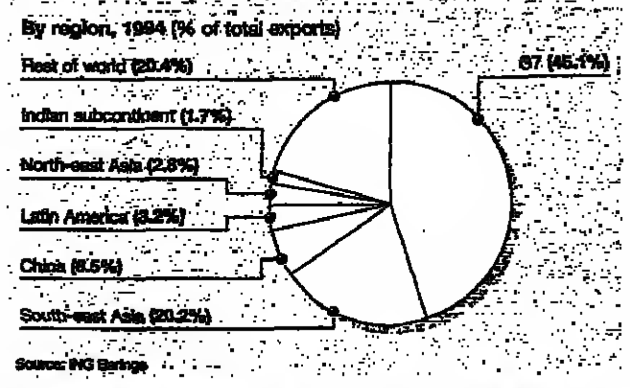
Meanwhile, Belgium, France, Germany, Italy, the Netherlands, Spain and Sweden are insisting that Korea agree to renounce its developing country status in farm trade before new agriculture negotiations in the World Trade Organisation in 1999.

Korea's refusal to give any commitment is supported by Australia, Canada and New Zealand – normally passionate critics of agricultural protectionism – and by Japan.

Korea has already told the OECD it will give up developing country status in trade in industrial products. But officials say its regime for agricultural trade is a matter for the WTO, not the OECD.

Korean exports: where they go

By region, 1994 (% of total exports)



Ericsson boost for Turkish mobile phone network

By John Barham in Ankara

Ericsson, the Swedish telecommunications company, is to supply Turkey's Turkcell mobile telephone network with $100m worth of switching gear and radio base stations this year in the most rapidly rising demand.

The Turkcell network is the largest of two operating in Turkey under a revenue-sharing agreement with the state-owned Türk Telekom telecommunications company.

Mr Ersin Pamuksuzler, deputy general manager of Ericsson's Turkish operation, said "the new investments will allow Turkcell to increase its capacity to serve 700,000 subscribers by tbe end of 1996". Ericsson holds a 15 per cent stake in Turkcell.

Demand for mobile GSM telephones in Turkey has grown rapidly since the government licensed the two networks in December 1993. Mr Pamuksuzler said "we are getting about 35,000-40,000 new subscribers per month for our network."

Turkcell already has 410,000 subscribers and needs to increase capacity to accommodate the growing number of new subscribers.

Demand is rising in spite of Turkey's serious economic difficulties and political uncertainty following last week's appointment of Mr Necmettin Erbakan as the country's first Islamic prime minister.

Mr Pamuksuzler said "there is a huge number of self-employed people and small companies that need mobiles and this trend is likely to continue."

Turkceli has almost cornered the GSM market after the government withdrew the licence of its competitor Telsim last year, alleging that it was in breach of its contract. One of Telsim's principal shareholders was locked in a bitter political feud with Mrs Tansu Çiller, then prime minister.

The new Islamist government has announced that it will renew Telsim's licence. Analysts expect Telsim will soon go ahead with plans to invest over $100m to upgrade its network and win back subscribers lost to Turkcell.

Ericsson executives hope that the new government will accelerate stalled plans to privatise the mobile network or sell new licences.

Mrs Çiller had hoped to raise $500m by selling 35-year licences until the supreme court declared the legislation invalid.

Her government sent a new draft law to parliament, but Turkey's recent political upheavals have slowed progress.

Dumping duties irk pasta makers

By Andrew Hill in Milan

Italian pasta companies yesterday threatened to appeal against a US decision to impose anti-dumping and anti-subsidy duties on imports.

The US International Trade Commission said on Tuesday that cheap imports from 20 Italian and three Turkish pasta producers had injured domestic producers. The Commerce Department will impose definitive anti-dumping duties of between 0.67 and 47 per cent on Italian producers.

De Cecco, Italy's largest exporter of pasta to the US, was hit with the heaviest anti-dumping duty, and an anti-subsidy duty of 3.37 per cent.

Mr Roberto Bonucci, managing director of De Cecco, said yesterday the company was "extremely displeased" by the ITC's decision, especially as De Cecco pasta cost up to twice as much as US-produced pasta.

"To be condemned you have to have damaged the competition by undercutting US pasta: it seems to me this is the reverse," he said.

Mr Giuseppe Menconi, president of Unipi, the Italian pasta-makers' trade association, said yesterday an appeal was a strong possibility.

The pasta-makers can appeal to the Court of International Trade in New York. The Italians are also putting informal pressure on the US government through the European Commission.

Italian producers export 150,000 tonnes of pasta a year to the US. De Cecco's US exports of 20,000 tonnes account for about 30 per cent of its prodnction.

Provisional duties are already in force against Italian pasta imports following a lobby by US producers, including Borden, Hershey and Gooch Foods.

WORLD TRADE NEWS DIGEST

BT links with Korean ally

British Telecommunications yesterday announced an alliance with Dacom, a privately owned South Korean telecoms carrier. Formerly the Data Communications Corporation of Korea, Dacom was established in 1982 with Korea Telecom holding a substantial stake. It has since been privatised and competes with Korea Telecom in the international voice and domestic long-distance market.

The joint venture will provide business communications services for companies in Korea and it will give its customers access to global services from Concert, BT's joint venture with MCI of the US.

Mr Ik-soo Son, president and chief executive of Dacom said: "BT is the best possible company partner to help us meet our objectives in the areas addressed by the proposed joint venture." Dacom employs about 3,000 and had revenues of $462m in 1995. It is a member of the Hansol Personal Communication Service consortium which won a licence this year to offer mobile services across Korea. *Alan Cane, London*

US-Japan chip talks fail

The US and Japan have failed to resolve their differences over semiconductor trade following two days of talks in Tokyo. "We held discussions on proposals from the both sides, but reached nosettlement," said an official at the Ministry of International Trade and Industry. However, he said there had been "a deeper understanding of the other's proposal" on a new framework to replace the bilateral semiconductor agreement which expires at the end this month. Washington has been pressing for a new bilateral framework which has boosted the foreign share of the Japanese microchip market to above the target of 20 per cent. *Foreign Staff*

Ukraine to lease Boeings

State-owned Air Ukraine will lease two Boeing-767 aircraft for non-stop flights to North America to replace ageing Soviet-built Ilyushin-62 aircraft. The Boeings will operate on existing routes linking Kiev with New York, Chicago and Toronto and to two planned destinations, Miami and Los Angeles.

The leasing arrangement was concluded through a joint venture set up with the US company Crusader with a capital of $250m. Further leasing arrangements are expected.

The Boeing aircraft are expected to generate considerable fuel savings compared to over the Il-62. Ukrainian media has also reported that the Ilyushins will no longer conform to US anti-noise legislation from next year. *Reuter, Kiev*

RJ Reynolds in Belarus venture

RJ Reynolds Tobacco, a unit of US consumer goods group RJR Nabisco, is negotiating a joint venture to produce cigarettes with the Grodno tobacco factory in Belarus, but several issues must be settled before the government can approve the deal.

An official at the Ministry of Foreign Economic relations did not assign a price to the potential deal but said that the investment would be split evenly.

Interfax news agency said the company would invest $12m over five years to modernise the factory and sought excise duty and value added tax exemptions, but the Belarusan side wanted $20-$30m in new equipment.

■ Ford will begin manufacturing cars and vans in Minsk next year after signing a $20m joint-venture deal with Belarus and Lada of Russia in May. *Reuter, Minsk*

NEWS: INTERNATIONAL

Resolution strengthens plan for international East African force to halt ethnic killing

OAU backs Burundi peacekeeping mission

By Michela Wrong and agencies

After decades of ignoring civil strife within member nations, the Organisatioo of African Unity (OAU) yesterday gave emphatic backing to a proposal to seod East African troops into Burundi to halt the killing betweeo majority Hutus and minority Tutsis.

Rejecting suggestioos that the initiative – planned by Tanzania, Uganda, Ethiopia – amounted to interfereoce in Burundi's internal affairs, the OAU concluded instead that it was "a demonstration of brotherly concern and geouine anxiety to avoid a new African catastrophe".

The resolution adopted at the end of the three-day summit io Cameroon was more hard-hitting than a draft version circulating beforeband, which vaguely commeoded regional efforts "to set up a technical committee to look into the modalities of extendiog security assistaoce to Burundi". In the final version, African leaders declared their full support for decisions reacbed at last montb's regional summit in Arusha to provide troops to guard politicians, key installations and retrain Burundi's Tutsi-dominated security forces.

That meeting was considered a diplomatic breakthrough, because it was the first time that the leadership in Burundi had formally asked for outside belp.

The OAU resolution, which also appealed to other nations to provide logistics and financial support for the venture, will satisfy Mr Julius Nyerere, the former Tanzanian president chairing peace talks between Buruodi's political parties.

His attempts to negotiate a political settlemeot between tbe two etbnic communities have so far been sabotaged by tbe steadfast refusal of UPRONA, the Tutsi-dominated party, to talk to Hutu-led rebels operatiog from Zaire.

Although details of the East African deploymeot remain nebulous, the OAU's decision to give it a formal blessing may encourage UPRONA to compromise.

But Mr Nyerere has made it clear that if all attempts at a political solution fail, Tanzania for one, is ready to realise its plans in the teeth of resistance from the Tutsi community.

More than 150,000 people have died in Burundi in the past three years and thousands have fled into neighbouring countries, stoking instability in a politically fragile region.

"It's a good initiative," Burundi's prime minister Mr Antoine Nduwayo said. Mr Nduwayo is a Tutsi, the minority tribe that dominates the army and insists on controlling any regional force sent to Burundi.

As a Tutsi, be is caught in the middle between hardliners rejecting the plan and the governmeot's acceptance of it under intense international pressure.

An old Tutsi who lost several family members among 80 killed in a rebel attack on the Teza tea estate last week *Reuter*

Roula Khalaf speculates on how Riyadh may use a $8bn windfall

Oil bonus mystifies Saudi watchers

Saudi Arabia may receive as much as $8bn in extra reveoues from higher oil prices this year. But how the windfall is being used is anybody's guess.

So far, according to economists and businessmen, not much of it has found its way into the local economy.

Average Saudi oil export prices in the first half of this year have been about $4 higher than the $14 price assumed in the SR150bn ($40bn) 1996 budget unveiled in January.

Businessmen and economists are eager to find out how the oil bonus is being used in view of the government's commitment to reducing reliance on oil and promoting the private sector.

King Fahd's illness in recent months seems to have slowed tbe momentum for economic decisioo-making this year. Economists fear that the security challenge posed by the recent attack oo a US Air Force personnel compound in Dhahran, the second bombing in tbe kingdom in aight months, will relegate economic matters even further.

Meanwhile, political analysts obsessed with "Al Saud watching" are searching for signs of a power struggle within the royal family. Allocations of surplus revenue require a decisioo by King Fahd at a time when Crown Prince Abdullah has taken up much of the day to day business. Prince Sultan, the defence minister, is also intimately involved in decision-making.

According to Mr Kevin Taecker, chief economist for the Saudi American Bank in Riyadh, possible priorities for spending the surplus revenue include expanding the military, accelerating payments to contractors for past work, retiring debt, giving more to government workers, helping with payments owed by government companies and early payments on military and civil aviation programmes.

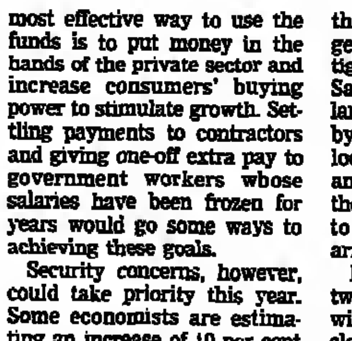
Mr Taecker says that the most effective way to use the funds is to put money in the hands of the private sector and increase consumers' buying power to stimulate growth. Settling payments to contractors and giving one-off extra pay to government workers whose salaries have been frozen for years would go some ways to achieving these goals.

Security concerns, however, could take priority this year. Some economists are estimating an increase of 10 per cent in defence spending to strengthen security in military installations in light of the attacks.

Saudi Arabia's defence budget accounts for about 15 per cent of GDP, the highest in the world. Prince Sultan is seeking to build up the army and purchase new tanks, and prepayments for US arms purchases may bave already gone through. The Crown Prince generally favours keeping a tight lid oo spending. But the Saudi National Guard, the largely Bedouin force headed by the Crown Prince which looks after internal security and acts as a counterweight to the army, is believed to want to buy a large number of armoured vehicles.

Defence spending is one of two areas increasingly viewed with suspicion in business circles. The other is the estimated SR30bn in stipends distributed yearly to about 5,000 Saudi princes. Saudi businessmen argue that Saudi Arabia would not be able to defend itself against an aggressor and will seek outside help, so all it needs is a viable deterrent. They estimate that the air force is already well trained and both the air force and the army adequately equipped.

Opec oil price index*



* Reference basket of 7 crudes

Africa to have $60m investment fund

By Joel Kibazo in London

The Commonwealtb is launching a $60m fund to invest in newly privatised companies and growing private companies in Africa.

The Africa Fund, to be launched by Sonth Africa's President Nelson Mandela in London today, is the first in a planned series of regional investment funds to be established under the umbrella of the Commonwealth Private Investment Initiative. The initiative was first discussed at last year's meeting of Commoowealth finance ministers. Plans for similar funds for the Indian sub-continent, Pacific islands and the Caribbean are under way.

The new fund is to be run by the Commonwealth Development Corporation (CDC), the UK's official development finance institution, which provided the seed capital of $25m. The rest of the mooey was raised from third world Commonwealth countries including Singapore, Malaysia, Soutb Africa, Zimbabwe and Botswana.

Management buy-outs will be considered as well as investments in privatised companies and in small and medium-sized privata businesses. Initial investments are likely to be about $3m and the corporation will rely on its 12 offices in Africa to look into companies in which it intends to invest.

Mr Robert Binyon, managing director of CDC financial markets, said all investmants would be on a "sound commercial basis". He added: "The Commonwealth is often only seen as a talking shop. But it needs to have a positive undercurrent of things going on such as this. The long-term objective is to act as a catalyst and attract other investors to Africa, especially those who may not have thought of investing in Africa without a fund such as this in existence."

CDC said it had a target of around 20 per cent of internal rates of return for the fund and indicated plans to tap international financial markets to increase it once the initial capital was invested.

INTERNATIONAL NEWS DIGEST

Loans for Aids vaccines urged

Developing countries should take out World Bank loans to pay drugs companies for vaccines against HIV and Aids, said the head of a new international pressure group, tha International Aids Vaccine Initiative. Dr Seth Berkley, IAVI's chairman, said that the costs of treating Aids victims was so high that borrowing to pay for vaccines would still leave a developing country better off. "Seventy per cent of teaching hospital beds in Uganda are taken up by Aids patients," he said at the Eleventh International Conference on Aids in Vancouver, Canada. IAVI's directors include African, Asian and Americans. It is backed by the New York-based charitable Rockefeller Foundation, where Dr Berkley is associate director of health sciences.

The offer of hard currency payments by developing countries would create a market for en HIV vaccine where there was none now, said Dr Berkley. Dr Berkley said IAVI had already had talks with the World Bank and outlined a plan for 10 developing countries each to take a $100m line of credit. He said that global annual spending on HIV/Aids was about $10bn a year, of which two-thirds was on prevention and treatment. Of the $2bn spent in research and development, less than 7 per cent was on vaccines. *Daniel Green, Vancouver*

Technology, Page 8

HIV drugs yet to be exploited

There are at least 12 classes of drug that could stop HIV, the Aids virus, of which only two have so far been exploited, said Dr Didier Trono, of San Diego's Salk Institute for Biological Studies, at the Vancouver Aids conference yesterday.

He said that at least 14 proteins had been identified as essential to the life cycle of HIV. The drugs already on the market, and which have proved promising when taken together, attack only two: protease and reverse transcriptase.

"Some of the treatments discovered through such research [could] be non-toxic, easy to administer and, most importantly, inexpensive," said Dr Trono. *Daniel Green*

Niger general 'stages coup'

Political parties in Niger yesterday accused the west African country's military leader of staging a second coup d'etat as the results of two days of voting cast him as outright winner of presidential polls.

A new National Electoral Commission, appointed on Monday after General Ibrahim Bare Mainassara suspended the previous one, gave him 52.22 per cent of the vote. General Mainassara's nearest rival Mr Mahamane Ousmane – the civilian president ousted in a January putsch, notched only 19.75 per cent.

Outside observers are unlikely to judge the poll free and fair with voters unable to find their names on lists and soldiers surrounding opposition candidates' homes and snatching ballot boxes from polling stations. *Michela Wrong, Nairobi*

Mubarak to visit Turkey

Mr Hosni Mobarak, Egypt's president, is due in Ankara today on a one-day visit. He is the first foreign head of state to visit Mr Necmettin Erbakan since Turkey's first Islamic prime minister was appointed two weeks ago.

Mr Mubarak is expected to encourage Mr Erbakan's stated aim of improving Turkey's relations with the Arab world, strained by a military co-operation agreement with Israel in February. *John Barham, Ankara*

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Delhi government hits storm of MPs' protest

By Mark Nicholson in New Delhi

India's five-week-old United Front government ran into an immediate barrage of protest at yesterday's opening of parliament from Congress party and Bharatiya Janata party MPs over last week's rise in administered fuel prices.

Congress MPs, on whose support the 13-party coalition government depends, held up the session's opening by 15 minutes, demanding a review of the petrol, diesel and cooking gas price increases. The UF government raised prices by 25-30 per cent last week, later trimming the diesel price rise to 15 per cent after earlier protests from unions, leftist parties, state chief ministers and even members of the coalition.

Congress leaders have said although they would oppose the "anti-people" fuel price rises, they would still give overall support to the coalition.

Nevertheless, the "monsoon" session of the newly elected parliament is expected to be a severe test of leadership for the prime minister, Mr H.D. Deve Gowda, whose coalition has already been rocked by rows over cabinet jobs. Internal rows have already twice forced Mr Gowda to expand his cabinet, while Mr Mohammed Taslimuddin quit as minister of state for home affairs on Tuesday after the BJP threatened to raise allegations of criminal charges against him.

Mr Gowda must also contend with suspicion within the Communist Party (Marxist) – which also supports the UF from outside – over the government's economic policy intentions, and with a forthcoming series of corruption cases implicating members of the Congress party, its other chief pillar of support. Mr P.V. Narasimha Rao, Congress leader, was this week summoned to appear before a Delhi court on July 24 to answer charges of complicity in the alleged swindling of a London-based businessman.

The toughest task may prove winning passage of the UF's first budget, which Mr P. Chidambaram, finance minister, is expected to present on July 22.

Mr Gowda's task may prove trickier given the unprecedented inexperience of the MPs elected in the April-May poll. About half the 545 MPs are new to the Lok Sabha, the lower house, and nearly a third have held no representative office at any level. Classes on parliamentary etiquette and procedure are to begin for neophyte MPs this weekend.

Maharashtra Survey, Separate Section

Adventurous life of Rao's 'god man'

Mark Nicholson reports on the rise and fall of the colourful Chandraswami

The rags-to-holy robes and riches story of Chandraswami, self-styled Indian guru to movie stars, tycoons, kings and sultans and, as of this week, co-accused in a Delhi swindling trial with Mr P.V. Narasimha Rao, former prime minister, has for two decades read as fantastically as fiction.

But today, as Chandraswami traipses dejectedly between Delhi's Tihar jail and a court where he faces charges of defrauding a London-based businessman of $100,000, his tale is one of decline and fall – a decline Indian commentators see as inextricably bound with that of the Congress party Mr Rao led into an historically poor electoral defeat in May.

"His fall is emblematic of the decline of Congress, because men like him have always thrived in what you could call 'Congress culture'," says Mr Sunil Sethi, a newspaper columnist and journalist who has long charted the murky career of India's most flamboyant "god man".

His career began 47 years ago in an obscure north Indian village, from where the young and ambitious Mr Nemi Chand Jain plotted himself a course in his early teens which took him into Congress party politics in Andhra Pradesh, where Mr Rao was a state political leader.

His path reputedly took him wandering through the lowland Himalayan forests in search of spiritual enlightenment before Mr Jain reemerged saffron-robed in the 1970s as Chandraswami, soothsaying mystic and increasingly well plugged-in political power broker.

The 1970s found Chandraswami crisscrossing the globe, claiming to be the "spiritual brother" of Indira Gandhi, then prime minister, and associating with the likes of Ms Elizabeth Taylor, the film star, Mr Adnan Kashoggi, the Saudi arms dealer, or the Sultan of Brunei.

Since the 1980s the Indian media began linking the bearded swami, whose base is an opulent three-storey, pink marble ashram in Delhi, with a series of political and financial "scams".

But few media allegations stuck to Chandraswami. He was initially arrested in 1988 on charges of defrauding Mr Lakhubhai Pathak, the London-based foods executive, who then alleged the "god man" duped him into paying $100,000 to secure newsprint and paper contracts. However, Chandraswami was released a week later and investigations dragged on until this May, when the swami and an assistant were finally arrested on the charges in Madras.

It was during the hearing of the case this week that Mr Pathak's allegation of Mr Rao's involvement prompted Mr Prem Kumar, the presiding judge, to summons the former prime minister. If found guilty, both men face jail terms of seven years, though lawyers say the case against Mr Rao may prove thin.

But their joint appearance in a Delhi court would embarrass Mr Rao and Congress, and give ammunition to opposition parties which allege his involvement in other corruption cases, and strengthen those within the party pressing to depose the 75-year-old leader.

The flurry of cases stems in part from the increasing activism of India's Supreme Court, which in January was the driving force behind bringing to prosecution a political bribes affair which had lain mouldering in the files of the Central Bureau of Investigation for five years. Twenty-five senior politicians, including seven ex-Congress ministers, have been charged in the affair. Three more politicians were charged yesterday.

In April, the Supreme Court demanded the CBI tarry no further in investigations against Chandraswami, and in March a 50-page public interest petition was filed at the court alleging his complicity in a series of scandals and currency violations. Citing evidence from the "god man's" testimony to another commission examining the background to Rajiv Gandhi's assassination in 1991, the petition also stated Chandraswami had privileged and frequent access to Mr Rao – a "special relationship" Mr Rao denies.

Rao: case may prove to be thin

Mr Rao, meanwhile, is also under investigation by the CBI in a case alleging that four MPs from a minority party received bribes in 1993 to vote for Congress in a tight confidence motion.

Whether the CBI's greater freedom and the Supreme Court's added zeal amount to a lasting cleansing of Indian politics, or merely a licence to proceed against those now out of power, remains to be seen.

What is most unlikely to be seen, though, are Chandraswami's greying locks and flowing robes on Mr Kashoggi's yacht any time soon.

ASIA-PACIFIC NEWS DIGEST

Burma hints at Suu Kyi exile

Burma's military government has suggested, for the first time, that if democracy leader Ms Aung San Suu Kyi were to retire from politics and leave the country, relations between Burma and the west would improve and a domestic political dialogue could be initiated. The idea, raised in a commentary published in state-run newspapers, reflects a growing belief among analysts that the military junta is looking for a way to defuse a tense domestic and international situation without having to engage Ms Suu Kyi directly.

The official commentary was published on the first anniversary of Ms Suu Kyi's release from nearly six years of house arrest. At the time of her release one year ago, military leaders asked her to help foster national reconciliation but have since refused her repeated calls for dialogue, saying that her peaceful activities but strong criticism are those of a "destructionist". Ms Suu Kyi has said that she does not have any preconditions for dialogue – and some within the opposition movement are urging her to take a lower profile in order to lure the military into talks – but that she will not consider exile.

Ted Bardacke, Rangoon

Malaysian trade deficit surprise

Malaysia recorded a surprise trade deficit in April after exports fell by more than imports. Economists, many of whom had expected a surplus, said the deficit could signal that government measures to cool the economy were starting to take effect. April's deficit was M$265m (US$106m), compared with a surplus of M$524m in March, the national Bernama news agency said. For the first four months of the year the trade deficit was M$1.6bn compared to M$2.1bn in 1995.

Malaysia's trade balance is one of its most closely watched economic indicators. The country's current account deficit last year of M$17.8bn, or 8.8 per cent of gross national product, was seen by some as an alarming sign that the country is spending beyond its means. In April, imports fell 8.0 per cent to M$16.24bn from M$17.66bn in March, while exports dropped 12 per cent to M$15.98bn from M$18.18bn. The drop in exports was partly because of a slowdown in worldwide demand for electronics goods, of which Malaysia is a significant producer.

James Kynge, Kuala Lumpur

Lake's China visit cut short

Mr Anthony Lake, US national security adviser, yesterday cut short his visit to China after poor weather conditions forced him to cancel a trip to Shanghai. Mr Lake was scheduled to travel to the city yesterday, to discuss Taiwan with the chairman of the semi-official Association for Relations across the Taiwan Strait. The US embassy in Beijing said weather conditions in Shanghai had forced him to cancel the trip. The tone of talks between Lake and top Chinese officials in his four-day visit to China was upbeat, with both sides agreeing that while there will continue to be differences between the two countries, maintaining dialogue and exchanges st various levels could play an important part in keeping often stormy bilateral relations more stable. An exchange of state visits between the two presidents now seems likely – though not before 1997.

Sophie Roell, Beijing

Guangdong boost for companies

Guangdong authorities have completed drafting a series of preferential policies to be extended to the region's strongest companies, according to officials in the southern Chinese province. The benefits, which are expected to be made available to about 70 companies, include favourable treatment in terms of tax, fund-raising, investment and foreign trade. The aim is to create powerful groups to spearhead the province's development and to rescue weaker companies.

Officials in Guangdong, one of China's most dynamic economic areas, indicated that selected companies will be given priority in offering and listing shares and in issuing corporate debt. The authorities declined to comment on which companies would be included. However, they are expected to include several listed companies, including Shenzhen Konka Electronics, Shenzhen Petrochemicals and Zhuhai Lizhu Pharmaceutical Group.

John Ridding, Hong Kong

Experts in Chinese fengshui have been called in to help Banharn Silpa-archa assert his authority

Geomancers guide Thai PM on office furniture

By William Barnes in Bangkok

Having reshuffled his cabinet several times, Mr Banharn Silpa-archa, Thailand's prime minister, has taken the more drastic step of rearranging his office furniture in the hope of ensuring his political longevity. The embattled prime minister called in geomancers, experts in *fengshui*, who advised him that the office furniture was in an inauspicious position and helping to undermine his ability to assert authority over his fractious seven-party coalition.

Mr Banharn was told to move his desk because it faced east – a word which in Thai can also mean "out". That prospect eased this week when the Prachakorn Thai party rejoined Mr Banharn's coalition, restoring his 73-seat majority in parliament before a censure motion expected later this month.

The prime minister, who is ethnic Chinese, is not the only Thai to turn to the traditional forces. *Fengshui* experts have noticed that a branch of south-east Asia's biggest bank, the Bangkok Bank, is situated opposite the capital's main railway station, Hua Lamphong. The bank is situated in line with a dozen railway tracks and roads, which lead to it and are believed to channel evil forces into the building. Experts in *fengshui* say the solution is to build a bank in the shape of a dragon – a powerful barrier against evil luck.

The prime minister turned to *fengshui* after a series of setbacks prompted political observers to speculate on his political demise after only a year in office. Mr Banharn has lost a finance minister, the boss of the country's Securities Exchange Commission and, last week, the head of the central bank resigned under a cloud.

Mr Banharn does observe Chinese superstitions, but in a Buddhist country, the prime minister, like his Thai predecessors, has also built up his merit with regular gifts to Buddhist monks.

As the accident-prone Mr Banharn acknowledges, any luck is welcome. The premier recently had to confirm that his date of birth was August 19, 1932, as shown in the official biography published up after last year's election. But his house registration documents for 1972 and 1979 and the 1995 directory of MPs, shows his birthday as falling on July 20, 1932. Mr Somsak Prissana-nanthakul, a government spokesman, said the change was common practice in Thailand because the Buddhist calendar differed from the Gregorian one.

He dismissed as "nonsensical" widespread suggestions the premier wanted to change his star sign to Leo to match previously successful prime ministers Mr Prem Tinsulanonda and Mr Anand Panyarachun.

LEGAL NOTICES

INSOLVENCY ACT 1986
LEYLAND DAF LIMITED
(IN ADMINISTRATIVE RECEIVERSHIP)

INSOLVENCY ACT 1986
LEYLAND TRUCKS (REALISATIONS) LIMITED (formerly LEYLAND TRUCKS LIMITED)
LEYLAND DAF INTERNATIONAL LIMITED
DAF INTERNATIONAL LIMITED

CONTRACTS & TENDERS

A.N.M. Azienda Napoletana Mobilità

NOTICE OF EXTENSION

Re: Open tenders for the supply of 200 urban buses

Notice published in the Official Gazette of the European Community S90/207 of 10.5.96 and in the Official Gazette of the Italian Republic no. 116 of 20.5.96.

Notice is hereby given that the deadline for the presentation of offers, previously set for 1p.m. on 9th July 1996, has been extended to 1 p.m. on 24th July 1996.

The contest will be carried out on 25th July with the same procedures as in the notice of call for bids.

The General Manager
(Dr. Ing. A. Ranieri)

Ramos government puts state sell-off at 'heart of its vision'

Once a solution to deficit problems, privatisation is now a policy commitment, writes **Edward Luce**

When the Philippine government's privatisation drive got going in 1992 critics accused it of "selling off the family silver" to stem the growing budget deficit. As privatisation approaches a new and more radical phase and with the budget deficit problem now closer to being resolved, those critics are more likely to point to ideological motives behind the drive.

With most of the Philippine state's industrial assets already sold off to the private sector, officials are searching for less obvious candidates. Mr Roberto de Ocampo, secretary of state for finance, says it is essential to keep the momentum going.

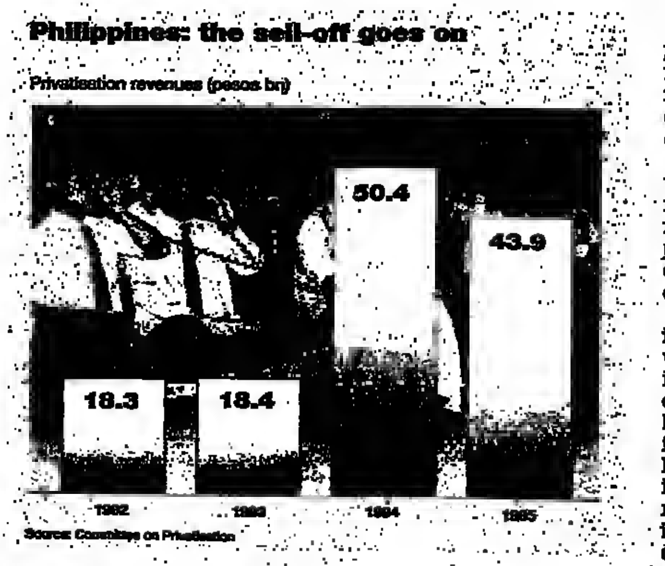
"Privatisation and the spread of share ownership is at the heart of this government's vision," said Mr de Ocampo. "We believe thet as much of the state sector as possible – including some aspects of health and education services – should be in private hands."

The Philippine National Bank, the National Steel Corporation, government military lands, Philippine Airlines, the state oil company and the Philippine Long Distance Telephona Company have already been sold off. Now the government is having to delve deeper. Known as the "third wave" of privatisation, the next enterprises targeted for auction include state pensions and government social security funds, say officials.

Before then, however, the second wave must run its full course. The two remaining big ticket items – the National Power Corporation (Napocor) and the Manila water system – are due to be sold off early next year. Revenues from the sale of Napocor's power generation facilities will come to an estimated $4bn to $5bn once the divestment is completed. This will make it the Philippines' largest privatisation by a wide margin.

Under the guidance of N.M. Rothschild – which advised on British electricity privatisation in Britain in the late 1980s – and Merrill Lynch, the US investment bank, Napocor is drawing up the formula for its divestment next year. "The basic objective is to get a level and competitive playing field in the Philippine power sector," said Mr Peter Bird, director of N.M. Rothschild.

Philippines: the sell-off goes on



Officials at Napocor, who estimate that most of the proceeds will be used to upgrade the country's transmission lines and create a national grid linking most of the archipelago's 7,000 islands by submarine cable, say that at first only Napocor's generation facilities will be sold off. These include coal, gas, geothermal and oil-fired power stations. Foreign companies will be able to bid for up to 100 per cent ownership.

Overseas companies operating existing power plants under the government's build-operate-transfer (BOT) law – notably the power subsidiary of Hopewell Holdings, owned by Mr Gordon Wu of Hong Kong, which is credited with ending Manila's "brownout" electricity crisis in 1993 – will be able to renegotiate their contracts. One option would be to shift to a build-operate-own (BOO) contract.

Broadly speaking, the state would retain control of a national transmission authority while generation would go to the private sector. Electricity distribution has already been privatised. All that remains is for a regulatory structure to be set up.

"We are very aware that the Philippines has no fair trade or monopolies and merger authority yet," said Mr Fernando Roxas, chief of privatisation at Napocor.

"What we are hoping is that congress will set up a sole regulatory body with the power to set a cap on price increases and prevent anti-competitive concentration of ownership."

The other bulk privatisation, the Manila water and sewerage system, will bring less of a windfall for the state coffers.

In both the power and water privatisations, though, the winning bidders will be required to return 10 per cent of equity to employees in company share ownership plans.

And in both sectors, the privatised companies will be required to list on the stock market within a specified period, in pursuit of the government's aim of wider share ownership.

Following a model developed in Buenos Aires, the Manila water system will be divided into two concession areas and contracted out to the most viable bidders. Bidders – so far five foreign companies, mainly French and British, are preparing documents – will be required to invest about $8bn in each area to upgrade the distribution network over the 25-year concession. The contracts will be completed by February next year.

"We are not actually taking proceeds from the water privatisation," said Mr Angel Lazaro, head of Manila Water. "But we are saving the taxpayer $6bn of public expenditure over the next 25 years."

Once Napocor and Manila's water network are in private hands, will there be anything left for the state apart from regulation?

President Fidel Ramos, whose term ends in 1998, says his administration's objective is to focus public spending on the victims of market failure. More than a third of the country's 68m people subsist below the poverty line.

Once a new tax system is in place – designed to increase budget revenues as proceeds from privatisation taper off – the government promises to step up spending on schools and hospitals for the poorest. Cash generated from the "third wave" of privatisation will also contribute to anti-poverty spending.

Joint venture component manufacturing operations will create up to 500 jobs

Honda announces £80m expansion

By John Griffiths in London

Carmaker Honda and Unipart, the vehicle parts and accessories group formerly owned by Rover Group, are to set up three joint component manufacturing companies in the UK. Together with a fourth joint venture also being planned between Unipart and Kautex, the German plastics group, they will create 400-500 jobs and involve total investment of £80m ($124m).

Honda, currently producing 100,000 cars a year at its Swindon plant in south-west England, and Unipart – headquartered at nearby Oxford – announced the projects last night.

The Japanese company is also studying the prospect for further expansion of its Swindon plant over and above a 50 per cent capacity increase to 150,000 cars a year already planned for 1998. Like Nissan, it is considering a third model for tha Swindon facility – in addition to the Civic and Accord.

Unipart's group chief executive, Mr John Neill, said the ventures made it increasingly clear that the UK had the potential to become "the enterprise centre of Europe". But he coupled the statement with a warning that the UK's attractiveness as a centre for foreign inward investment would be sharply reduced if the UK were finally forced to adopt the European Union's social chapter. "Put bluntly, if we'd already been signed up I don't think Honda and our other Japanese partners would have taken these projects on."

The three naw joint companies formed with Honda of the UK Manufacturing are:

● Unipart Yachiyo Technology, which will manufacture pressed steel body components and sunroof assemblies.

● Unipart Yutaka Systems, a venture with both Honda and Japanese components group Yutaka Giken, to make exhausts, catalytic converters and chassis components.

● Unipart Yanagawa Engineering, in which Japanese parts group Yanagawa Seiki is also a partner and which will produce gearbox components.

The venture with Kautex UK will involve building a new factory to produce plastic fuel tanks for Honda and other UK-based vehicle makers. While most of the new ventures' output will go to Honda's Swindon assembly lines and to Unipart's other principal components customer, Rover Group, Honda is actively encouraging Unipart to find business for the ventures among its car-making rivals in Europe.

For Unipart, the ventures represent by far the biggest pay-off to date for its long-term strategy to become a world-class components manufacturing group.

It spent several years in the late 1980s persuading Honda that it could meet Honda's cost and quality standards as a supplier. Mr Neill said: "We deliberately chose Honda as a manufacturer from whom we could learn how to become world-class."

Mr Kentaro Kato, managing director of Honda's UK manufacturing subsidiary, said yesterday the new ventures were a demonstration of Honda's "fundamental commitment to establishing long-term relationships with our suppliers; that commitment goes far beyond financial investment."

Unipart, which employs about 4,000 and had a turnover of £850m last year, is the single largest shareholder in the Japanese partnership ventures, with a stake of 48 per cent in each.

'Urgent' beef cut measures called for

By Neil Buckley in Brussels

Urgent measures are needed to cut beef production in the European Union and "rebalance" the beef market in the wake of the mad cow crisis, Mr Franz Fischler, EU agriculture commissioner, warned yesterday.

He also criticised beef traders and retailers for failing to pass on to consumers the fall in beef prices experienced by producers. Commission officials said retail beef prices should be between 8 per cent and 14 per cent lower in many countries, which could help rekindle consumer demand.

Speaking in Brussels to the EU's economic and social committee, Mr Fischler said the four-month-old BSE crisis had led to an 11 per cent decline in beef consumption, and beef stocks bought by the Commission to support the market likely to reach 800,000 tonnes by the end of the year.

He warned that such market intervention could never be a substitute for consumer demand, and there was a danger of intervention stocks overhanging and depressing the market. The EU can no longer sell beef stocks cheaply into the world market - a widespread practice in the 1980s - because of new rules restricting export subsidies.

Without "radical and immediate action" to rebuild consumer confidence and rebalance supply and demand, the jobs of millions of producers could be at risk.

Commission officials are thought to be considering a number of adjustments to the beef market, including re-examining premium rates for calves sent for slaughter and lowering weight limits for animals bought into intervention by the Commission.

Mr Fischler's warnings came amid mounting criticism of the Commission's handling of the crisis.

Mr Klaus Hänsch, the president of the European Parliament, has written to Mr Jacques Santer, Commission president, calling for the Commission to make a statement on the crisis to next week's parliamentary session in Strasbourg.

● The UK government expects the European court to rule in favour of a partial lifting of the worldwide ban on British beef today.

"We are optimistic of a relaxation in the ban to third countries which can't export back to the EU," said Mr Douglas Hogg, the UK agriculture minister. That would open up exports to 70 countries which previously imported British beef.

Mr Nik Ashcroft, the managing director of ADM, one of the UK's biggest exporters, said business to those countries was worth between £150m ($232m) and £200m a year, out of an export total of £550m before the crisis. "It is quite a good thing because a number of African countries will buy on price, but it will take a very long time for trade to build up again," he said.

LG says decision went further than just grants

Koreans' Welsh deal highlights battle for investment

By Stefan Wagstyl in London, John Burton in Seoul and Roland Adburgham in Cardiff

"There were other considerations, besides grants," says Mr Koo Cha-Hong, pesident of the LG Group, the South Korean conglomerate which has announced plans to build a £1.7bn ($2.6bn) electronics complex in South Wales.

But grants certainly seem to have played an important role in the company's decision to choose Wales. British government officials who observed the negotiations said the South Korean group exploited differences among the regions competing for the project to get the best possible deal. They said: "LG played it for all it was worth."

There is no suggestion that there was anything untoward in the behaviour of LG or of the Welsh Office and the Welsh Development Agency, which are giving LG up to £200m in aid. But the claims and counter-claims about the size of the award highlight how intense battles for inward investment have become.

When British officials first heard of LG's plans last year, they were astonished at their size. The plans announced yesterday are for two factories: a microchip plant to be built by LG Semicon, the group's semiconductor maker, employing 1,700, and a consumer electronics plant making television components and televisions which will create up to 4,400 jobs.

LG sees the scheme as the launch of an ambitious programme to increase sales from $64bn last year to $385bn in 2005, with overseas turnover rising from 20 per cent to 50 per cent of the total.

LG, the third largest Korean conglomerate, believes overseas growth is the solution to the problems afflicting all Korean conglomerates, including a stagnant home market, rising domestic wage costs and the threat of trade protectionism.

Although Asia remains the favourite destination for Korean investment, Europe has emerged recently as a new magnet for Korean factories as trade booms between Seoul and the European Union.

LG was an early pioneer in Europe, having established a VCR plant in Germany in 1986 followed by a microwave oven and television factory in north east England in 1988.

In Europe, the UK was always a first choice. Although Germany had been LG's original European base, executives complained about growing wage costs. LG has increasingly preferred tha UK because of lower wage costs, lower taxes, open economy and the English language, which is extensively taught in Korea.

Having decided on the UK, LG focused on the regions. Wales, Scotland and northern England got priority because they include most areas where maximum grants are available.

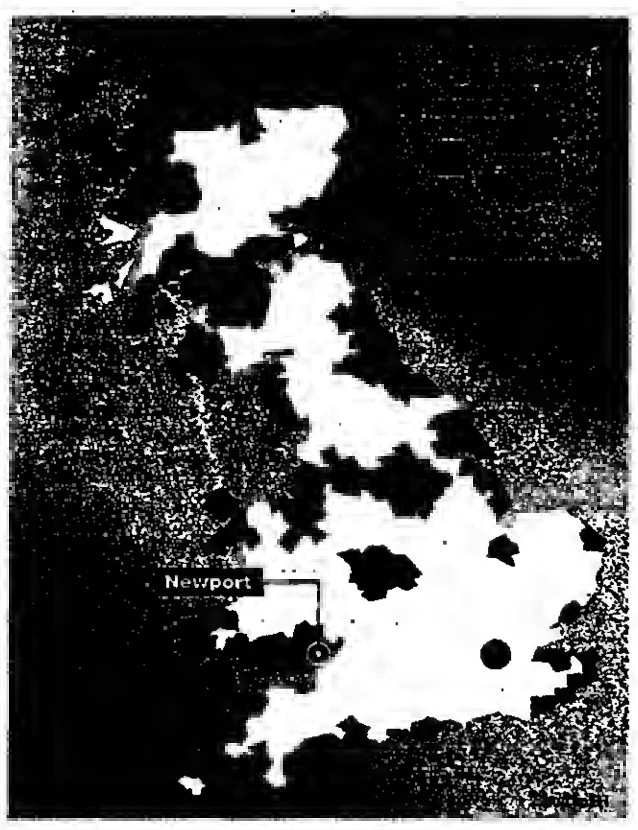
northern England was ruled out early because there was insufficient land by LG's existing plant. Also, LG did not want to compete head-to-head with Samsung, which had just opened a £450m consumer electronics complex at Wynyard Park in north-east England.

Three factors seem to have given Wales a lead over Scotland – good early rapport with Welsh officials, the relative closeness of Wales to London, and the presence in Wales of a key potential supplier – Ocean Technical Glass, a Japanese-German joint venture in Cardiff, making high-tech glass tubes.

But discussions with the Welsh apparently ran into trouble since LG in early 1996 was talking about locating in western or central England. The WDA then increased its aid offer to win back LG, according to persons familiar with the negotiations.

Having selected Wales, LG Electronics officials assumed LG Semicon, its 56-per-cent owned subsidiary, would follow. But as late as May, when the BBC first reported LG's plans, LG Semicon was still proposing a separate plant in Scotland or Ireland. Mr Michael Forsyth, the Scottish secretary, flew to South Korea amid Welsh fears that he was about to poach the chip plant. Meanwhile, Ireland was dropped by LG for lack of infrastructure.

But the LG head office intervened to bring the two schemes to one site to save costs. Mr Koo Cha-hong, LG president, denied there were deep divisions between the two subsidiaries. "We sat down and compared the merits of Wales and Scotland. Wales won."



Ministers deny over-generous financial aid

By John Burton, Roland Adburgham, Chris Tighe and Stefan Wagstyl

The British government yesterday denied that the grants of up to £200m given to the LG group for its £1.7bn investment in Wales were too generous.

Mr William Hague, the Welsh secretary, said the support was within guidelines set down by the Treasury and by the European Commission, which monitors aid across the EU for evidence of unfair subsidies. The package is the biggest ever offered to an inward investor to the UK.

Mr Hague was speaking in Seoul, Korea, where Mr Koo Cha-Hong, the LG president, yesterday confirmed plans to build an electronics complex with 6,100 jobs in Newport, south Wales, including semiconductor and consumer electronics plants.

Mr Hague denied that British regions had engaged in a bidding war for the project, which also attracted keen interest in Scotland and northern England.

Mr Hague's comments were echoed in London by Mr Tim Eggar, the industry minister, who said that the British system in which regions compete for inward investment schemes worked very well. The proof lay in its success in bringing jobs to Britain, he said.

But some Whitehall officials expressed concern that the lack of a strong central authority for inward investment undermined efforts to co-ordinate British efforts. One official familiar with the LG negotiations said: "The behaviour of the regional authorities just encourages the Korean response [of playing regions off against each other]. It was always competitive but it has become much worse."

The Department of Trade and Industry has an inward investment agency – the Invest in Britain Bureau – but it has less experience and fewer resources than the well-financed Welsh Development Agency and Scottish Enterprise.

Inward investment officials in the English regions complain that they find it difficult to compete with Wales and Scotland, which as well as having more funds for inward investment promotion, have their own cabinet ministers to speak for them in government and to meet potential investors.

Mrs Jo Chezal, director of international marketing for the Northern Development Company, the north's economic development agency, said yesterday that Wales and Scotland had built-in advantages over the English regions. Welsh officials denied they had an unfair advantage saying that every large investment had to be approved at cabinet level. Also it had to meet EU guidelines – or risk being declared illegal.

The grant given LG is the equivalent of about £30,000 a job, which is considerably more than than awarded to most other investors, including the £15,000-£17,000 granted to Siemens, the German group, which is building a semiconductor plant in north-east England.

However, these awards pale in comparison with those paid in other European regions.

Banks show drop in earnings from overseas activity

By Graham Bowley, Economics Staff

UK banks' net overseas earnings declined last year due to the increasing number of them being owned from outside the UK, lower overseas lending and reduced income from overseas interest rate derivatives.

However, UK insurance institutions registered their biggest rise in overseas earnings since 1986, according to British Invisibles, the trade group for the financial industry. The total net overseas income of the financial sector rose to £20.4bn ($31.6m) last year from £18.8bn in 1994, the group's annual survey showed yesterday. Earnings from services were £12.2bn, 60 per cent of the overall surplus, £800m higher than in 1994.

The remaining £8.2bn was generated by earnings from investment income, also £0.8bn higher than in the previous year.

Buoyant conditions on international stock and bond markets in 1995 boosted overseas earnings of pension funds and unit and investment trusts.

Pension funds' earnings rose to £2bn from £1.7bn. Unit trusts' earnings returned to their 1993 level of £724m, after declining to £587m in 1994.

But securities dealers had a worse year. Their net overseas earnings fell from £2.1bn in 1994 to £1.7bn. "Although the steep decline in dealing profits apparent in 1994 was reversed, this was more than offset by a return to an outflow of earnings from direct investment," the survey found.

But the purchase of UK banks such as Barings, Kleinwort Benson and SG Warburg by overseas buyers meant there was a £1.2bn outflow of investment income from the banking sector last year.

This meant banks' net earnings fell from £7.5bn to 1994 to £6.2bn last year. Banks' overseas earnings were also hit by lower volumes of overseas lending.

Insurance institutions' earnings rose from £4m to £6bn, benefiting from a big rise in direct investment income. This grew from £46m in 1994 to £1.1bn in 1995.

Insurance institutions' portfolio investment incomes rose from £2.1bn to £2.2bn last year. Lloyd's earnings rose sharply from £785m to £1.6bn. This included "a doubling of portfolio investment income and a further rise in net underwriting income", the survey found.

Protestants under peace spotlight

Violence in N Ireland has taken attention off republican movement

For once, the prospects for peace in Northern Ireland do not rest on the shoulders of Mr Gerry Adams, of the Sinn Féin party of which he is president, or of the Irish Republican Army. As the region slides back towards bigotry and violence, attention is focused on the leaders of the Protestant "loyalist" paramilitary groups.

At the UK parliament, there is little doubt that the murder on Monday of a Roman Catholic taxi driver heralded the return of sectarian killings. Michael McGoldrick, aged 31, who wanted to be a teacher, was shot in his taxi a few days after graduating from Queen's University, Belfast, with a degree in English and politics.

British ministers still believe there is a chance of preventing a repetition of the sectarian murders that continued until the IRA called a ceasefire in August 1994. They hope to persuade the Protestant paramilitaries not to end the ceasefire they declared a few weeks later.

The UK and Irish governments have known for some time that loyalist political leaders had been holding the line with considerable difficulty following the IRA's return to violence in London's Docklands district in February. Irish leaders, fearful that a return to Protestant terrorism might involve targets in the Republic of Ireland, have been effusive in their praise for loyalist leaders in Northern Ireland.

In spite of causing mayhem with bomb attacks in London and Manchester, the IRA has studiously avoided escalating the conflict in Northern Ireland. During the early 1990s republicans were literally outgunned by loyalists. One of the arguments that led to the IRA ceasefire was that violence was counter-productive within the community. More Roman Catholics were killed in reprisal attacks than Protestants.

The past week's events are likely to play into Mr Adams' hands, allowing him to present his credentials as a voice of moderation. "Just when we thought we might have seen the last of it, the worst excesses of tribalism have returned to the surface," said a senior member of Britain's governing Conservative party.

In a re-run of events at the start of the "Troubles" more than 25 years ago, it is Catholics who are seen as the victims of an aggressive majority, with British security forces coming to their aid.

One of the few possible benefits has been to defuse some of the clamour among nationalists for radical reform of the Royal Ulster Constabulary, the Northern Ireland police force, which has been making concerted attempts to shed its image as the law-enforcement agency of Protestants.

In the short term ministers have made clear that the RUC chief constable and his deputy have their full backing and complete autonomy. "This is a law-and-order issue," said a cabinet member. "Political compromise does not come into it."

The broader task is to ensure that voices of moderation are not drowned out. The multi-party talks in Belfast are in danger of petering out, their reason for existence undermined by the IRA's refusal to restore its ceasefire and unionist antipathy towards Mr George Mitchell, the former US senate majority leader, who is chairman of the talks.

Mr David Trimble, leader of the Ulster Unionist party, the largest pro-British party in Northern Ireland, is being given the benefit of the doubt by politicians in London and Dublin, who acknowledge that during the traditionally tense marching season, culminating tomorrow when Protestants commemorate their victory over Roman Catholics at the Battle of the Boyne, he had little choice but to be at Portadown, the scene of fierce clashes between hardline Protestants and the police. But he will have been warned by ministers in London that the scenes will have done nothing to strengthen the unionist cause among British voters.

John Kampfner

As tensions ride high ahead of tomorrow's traditional July 12 celebrations, it is the Orange Order which is shaping the political agenda rather than the political parties, John Murray Brown writes.

Less than six months ago the Ulster Unionist party, the province's largest party, was voting to sever its links with the Orange Order, which has about 60,000 members. Mr David Trimble, the party leader, publicly outlined a new relationship which would parallel the ties that the British Labour party has with its trade unions – close but not institutionalised.

The UUP's links with the Orange Order look stronger than ever. As the largest Protestant organisation in the province, its influence is clear. It also has a critical input to the structure of the UUP, sending more than 10 per cent of delegates to the party's Council. For all the Order's denials, there is growing evidence that the wave of protests have been centrally organised. It emerged yesterday that the Orange Order had called on district lodges to submit applications with the police to allow additional protest marches even before the stand off at Drumcree was under way – an indication that they were preparing for trouble.

UK NEWS DIGEST

Strike bans to be considered

Plans to ban strikes in essential UK services could be included in the governing Conservative party's election manifesto. The controversial proposal is being considered in response to the industrial unrest which has hit London Underground and Royal Mail and which threatens British Airways. Mr Ian Lang, trade and industry secretary, is keen to press ahead with the idea, although Downing Street said last night the government had "no current plans to outlaw strikes in essential services through primary legislation". Conservative Central Office said the issue was being "kept under review".

Workers who might be covered by such a strike ban could include those in the transport gas, water and electricity industries, as well as doctors, nurses and ambulance workers, firefighters and the police. *Robert Taylor, London*

■ NUCLEAR PRIVATISATION

British Energy offer popular

Small investors may get up to 50 per cent or more of the British Energy privatisation. It emerged yesterday after the offer to small investors closed well oversubscribed. Initially the government had allocated 30 per cent of the nuclear power company for small investors. But these investors applied for more than twice that amount. Estimates compiled after the close of the offer suggested that there were more than 520,000 applications for about 380m of the 610m shares on offer. Final figures are expected today. The level of retail investor support surprised some analysts especially as British Energy, which operates eight nuclear power stations in the UK, is not expected to report sufficient profits to cover the first year's dividend. *Simon Holberton, London*

■ BREWING

Pub company seeks new deal

Inntrepreneur Pub Company, the UK's largest pub chain outside brewery ownership, is seeking permission from the Office of Fair Trading to drop undertakings it made five years ago to help preserve competition. Some brewers are likely to lobby hard against Inntrepreneur, fearing that OFT approval will give the chain massive buying power. Its 2,900 pubs equal nearly 9 per cent of British pubs outside of brewery ownership. *Roderick Oram, London*

■ PROPERTY

Development contest launched

Standing on the roof of his department's headquarters, Mr John Gummer (left), the UK environment secretary, described the 19-storey building yesterday as "the most discourteous and rude" in central London. Few would disagree with this harsh assessment of 2 Marsham Street, which has dominated the skyline since it was built in the late 1960s. Mr Gummer was launching an architectural competition for a new development to replace the three concrete towers, which are already crumbling. He will be one of 12 competition judges, along with Mr Michael Heseltine, the deputy prime minister, and representatives from the property industry and community groups. *Simon London, London*

■ MOBILE PHONES

Orange defeats rival in court

Orange, the mobile phone operator, yesterday claimed a comprehensive victory over Vodafone, its larger rival, after a High Court judge threw out allegations that the smaller company made false claims in a £10m ($15.5m) advertising campaign.

Mr Justice Jacob dismissed Vodafone's action – for malicious falsehood and infringement of trademark – and awarded costs to Orange. He said aspects of Vodafone's case were "hopeless". Vodafone, the UK's biggest mobile operator, took court action after Orange refused to withdraw last autumn's campaign focusing on cost savings offered by its business services. *Alan Cane, London*

■ WATER

Watchdog warns of higher costs

A UK consumer watchdog has warned that water bills could rise "substantially" because of future European directives as Britain's privatised water utilities come under increasing pressure to improve compensation to customers. The National Customer Council, part of Ofwat, the water industry regulator, said the European Union's draft revised Drinking Water Directive is likely to cost £2bn ($3.12bn) over 15 years, adding £5 a year to average bills to meet the cost of replacing lead pipes. Mr Jim Gardiner, chairman, warned it would be too late to discuss the measures by the time of the review of water price controls. *Jane Martinson and George Parker, London*

■ VEHICLE PRODUCTION

Peugeot recalls 150,000 cars

Some 150,000 Peugeot 306 cars built by the French group's UK subsidiary, are being recalled to remedy possible wiring faults that could lead to under-bonnet fires. The recall covers only right hand drive models sold between April 1993 and the end of February 1996 and follows 20 instances of wiring malfunction, some of which led to fires. *John Griffiths, London*

■ FAMILY PLANNING

Birth control – use of contraceptives

Country	World ranking	% couples using contraception
China	1	83
France	2=	81
UK	2=	81
Italy	8	78
Germany	15	75
US	19	74
Haiti	102	10
Nigeria	112	6
Mauritania	118	3

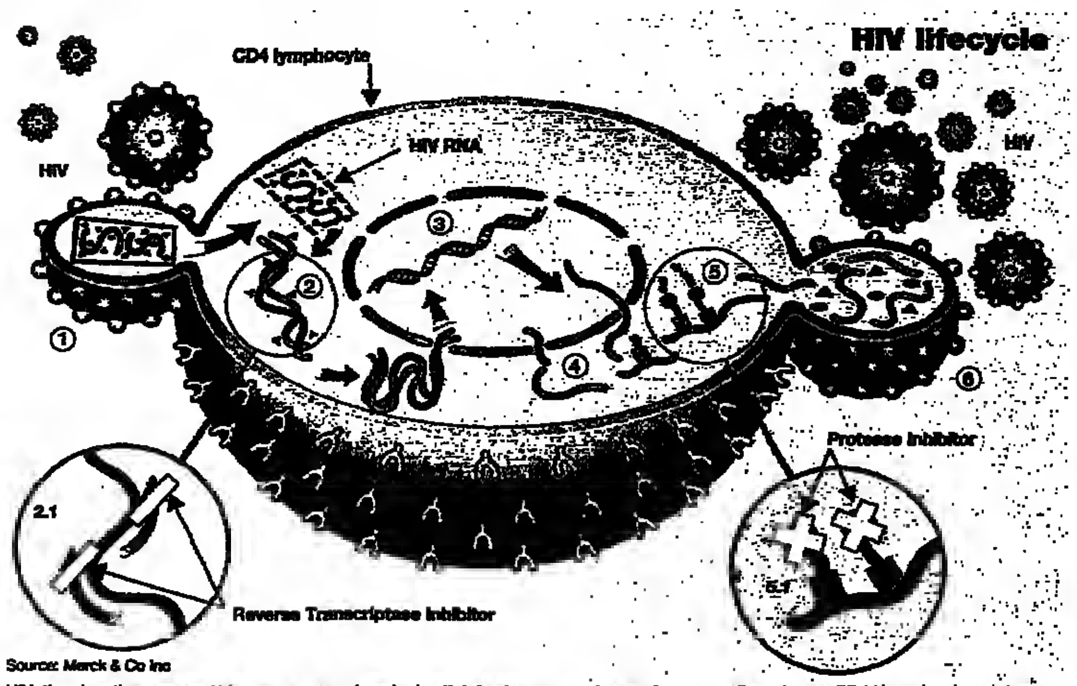
Source: Marie Stopes International; United Nations Population Division

China tops use of contraceptives

China heads the world usage of contraceptives, with 83 per cent of Chinese married couples using them, according to a study released today. The UK and France share second place, the study, by Marie Stopes International, the family planning charity reveals. The tables shows the percentage of married couples of reproductive age using contraception. Former Yugoslavia has Europe's lowest rate of contraceptive – 55 per cent. In Africa there are 16 countries in which less than 10 per cent of couples use contraception. The pill is the most popular contraceptive in Europe, Africa and the Arab world. But female sterilisation is the preferred method worldwide – used by 35 per cent of couples. *Clive Cookson, London*

Many HIV researchers believe that mixing drugs could be the next treatment breakthrough, says **Daniel Green**

Aids-beating combination



Source: Merck & Co Inc

HIV, the virus that causes Aids, cannot reproduce by itself. It latches on to a human immune cell, such as a CD4 lymphocyte, and injects its genetic material (RNA) into the cell's cytoplasm (step 1). The RNA is transcribed into DNA by HIV's reverse transcriptase enzyme (2) - reverse transcriptase inhibitors such as AZT block this step (2.1). Then the DNA is integrated into the host cell's chromosome and transcribed back into RNA (3); this may occur rapidly or may follow a dormant period. The RNA is translated into long protein chains and enzymes (4). The enzyme protease cuts the protein chains so that the components of new virus particles can be assembled (5); protease inhibitors such as Merck's indinavir act at this stage (5.1). Finally, completed HIV particles bud off to infect new cells (6).

"Aids drugs taken together eliminate the Aids virus HIV from the body." Such a statement would have been unthinkable even six months ago, according to Scott Hammer of Harvard Medical School, speaking this week at the 11th International Conference on Aids in Vancouver, Canada.

At the start of 1996, clinical trials oo "combination therapy" had just started. Hopes for success were tempered by the knowledge that when Aids drugs were taken singly the effect was modest at best.

The results of the combination trials showed that the levels of HIV in the blood could fall by more than 99 per cent, below detectable levels in most cases, within a few months.

Longer-term trial results, which will confirm the power of combination therapy, are to be published today. The implications of the phenomeonn bave been the main talking point of the conference. Has Aids effectively beeo cured? Will HIV re-appear nver the long term? The jury is still out, but much is beiog learned from the way in wbicb the drug combination appears tn catch the virus nff-guard.

The Aids virus works by invading cells – called CD4 – of the immune system. It weaves its genetic material into that of the cell, forcing the cell to make copies of the virus and eventually killiog it. The new viruses invade nther CD4 cells but at the same time the body is growing new CD4 cells. The HIV carrier can remain healthy for many years before tbe equilibrium tips in favnur of the virus and the immune system fails.

The first Aids drugs sucb as AZT, made by Glaxn Wellcome of the UK, wnrked by interfering with an enzyme, called reverse transcriptase, which plays a role in the weaving-in process. In receot months new reverse transcriptase inhibitors with fewer side-effects than the earlier drugs have been approved by regulators. They include Glaxo Wellcome's 3TC and Boehringer Ingelheim's Viramune.

But the oew drugs that have led to the excitemeot about combinatioo tberapy work differently. They blnck another enzyme, protease, wbicb acts in the construction of new viruses by the CD4 cell. A typical triple-combination tberapy involves AZT, 3TC and one of the protease inhibitors. There are three protease inhibitors approved by regulatnrs: indioavir (Crixivan) from Merck, ritnnavir (Norvir) from Abbott Laboratories, and saquinavir (Invirase) from Rocbe.

Why sbould the mixture be so much more effective than any compoοent on its own? Patients who take just 3TC provide a striking clue to tbe puzzle. All Aids drugs stimulate HIV to motate intn strains that are resistant to tha drug. With protease inhibitors, the process normally takes many months. But with 3TC, resistance appears far faster, usually within weeks. In combination therapy, the strains that are better at resisting 3TC are worse at resisting the other drugs in the cocktail.

In addition, the protease inhibitors slow down the rate of production of new viruses, so that the virus cannot evolve fast enough to overcome multiple attack.

Other evidence suggests that the mechanism of drug resistance lies at the heart of combination therapy. Patients who take low doses of combination therapies respond more modestly than those on the normal dose, as would be expected. But if the dose is later increased to normal levels, the combination does not work: the low dose has created resistant strains.

"We must block the infection early and hard," says Robert Gallo, a co-discoverer of HIV in the mid-1980s. There is a parallel with antibiotics. If a patient does not complete a course of antibiotics, enough resistant bacteria survive and multiply, and a second course of the same antibiotic is far less effective.

However, many issues will have to be resolved before triple therapies can be embraced wboleheartedly as a potential cure for Aids:

- The regimen is difficult to follow, involving dozens of capsules taken at various times. Side-effects, though less than with AZT alone, can include nausea and kidney stones.
- Even if tha virus is eliminated, the immune system may be permanently damaged.
- The trials are still on scores of people rather than thousands. There is no evidence yet on how effective combination therapy is for HIV carriers who have not developed Aids. AZT was once proposed as a drug for all HIV carriers irrespective of whether they had developed Aids. Big trials showed this treatment did not necessarily work.
- The timescales for trials have been less than a year in most cases. HIV may simply take a long time to develop resistance to drug cocktails that will show up after two or three years.
- HIV is a very variable virus, with at least 10 important sub-types and countless minor strains. Triple therapies have not been tested against many of these variants.
- Richard Parker, chairman of the department of health policy at the State University of Rio de Janeiro in Brazil, called for social revolution in countries whose customs prevented some groups from taking protective steps such as using condoms.

The conference is crammed with poster sessions and satellite symposia unrelated to combination therapy. They discuss everything from treating Aids-associated diseases to whether aspirin might work and the role of complementary medicine.

Two approaches stand out. The first is vaccines, favoured especially by developing countries whose medical infrastructures can cope with mass vaccination. Vaccines are designed to alert the body's immune system to recognise and attack invaders. Most vaccines are weakened or dead examples of the invading organism.

New techniques aim to isolate the part of the HIV that should trigger an immune response. But the relationship between HIV and the immune system has so far proved too complicated for vaccine researchers, who are pessimistic about the prospects of a good HIV vaccine becoming available for several years.

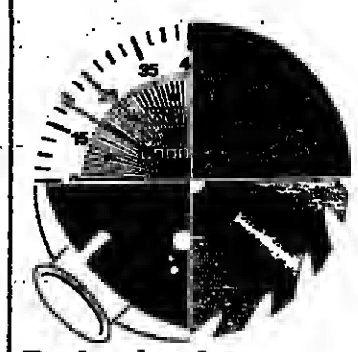
The second approach – the latest red-hot topic, according to the US journal Science – is based on a finding by Gallo and colleagues at the University of Maryland. They looked at how HIV attaches itself to the CD4 cell, a mechanism which had apparently been understood for years. Gallo's team found a second mechanism, involving a group of naturally occurring proteins called beta-chemokines. The exciting aspect of the beta-chemokine discovery is that some peopla who appear to be naturally immune to HIV have high levels of beta-chemokines.

The implication is that the natural proteins somehow squeeza out HIV, preventing the virus from attaching itself to CD4 cells. The potential for a new treatment is enormous, and as beta-chemokines occur naturally, there should be no side-effects.

Researchers now believe that there are several more chemicals like beta-chemokines that act as molecular gateways for HIV.

Gallo told an overflowing conference hall that at past conferences he had erred on the side of optimism. Now that genuine progress was being made for the first time in years he preferred "to err on the side of caution". His resolve did not last. He completed his presentation by saying: "It is my hope and belief that in the near future people will not die of this virus but will live with the virus in check". That statement, too, would have been unthinkable a few months ago.

Worth Watching · Vanessa Houlder



Brain clue to appetite control

A new insight into how the brain regulates appetite could help develop treatments for obesity and other eating disorders, according to a report in today's Nature.

Researchers at Synaptic Pharmaceutical Corporation in New Jersey and Ciba in Switzerland believe they have found the "feeding receptor" – a molecular switch that stimulates appetite when it is activated by certain neuropeptides.

Laboratory tests showed that the receptor – known as the Y5 – could be activated by peptides that increase food intake in rats.

Synaptic and Ciba, which have been collaborating on research for the treatment of obesity and associated cardiovascular disease, believe that drugs acting directly on the receptor could offer new treatments for obesity.

Synaptic Pharmaceutical: US, tel 201 2611331; fax 201 2610623.

Faster access to the Internet

Gaining access to the Internet can be frustratingly slow. Conventional modems offer data speeds of 28.8 kilobits per second and even high-speed digital versions usually offer just 64 kilobits per second.

Ericsson, of Sweden, has developed a system for copper networks that will allow people to access the Internet at 512 kilobits per second. The system, known as a Cobra World Wide Web transmission system, is based on ADSL (asymmetric digital subscriber line) technology.

It uses a device that splits a standard telephone line into two channels, one of which – the low-band – is used for voice communication, while the other – the high-band – is used to transmit data.

Ericsson, Sweden: tel 46705767007; fax 4687194396.

Urine test for bladder cancer

A simple urine test for bladder cancer was approved by the US Food & Drug Administration this week, *writes Victoria Griffith.*

The test, developed by the biotechnology group Matritech, is the first to use markers called nuclear matrix proteins. These are cell skeletons discharged from the body once the cells die. The skeletons are thought to differ from those of normal cells in a large number of cancers – perhaps all. Matritech is also working on nuclear matrix protein-based blood tests for colorectal, prostate, cervical and breast cancers.

The new urine test – expected to cost about $50 – is an easy and inexpensive way of testing patients for bladder cancer. A cystoscopy – a painful procedure which runs an instrument through the urethra – is the only other option available today and costs about $300.

Matritech: US, tel 617 9280820; fax 617 9280821.

Let a computer read the map

Arguments over map-reading could become unnecessary with the development of ever more sophisticated car navigation systems.

Robert Bosch, the motor components group, has just launched in the UK a retro-fit version of a system that navigates using CD-Roms, sensors and GPS (global positioning system) signals. The system, called TravelPilot, has an on-board computer that interprets information on speed and direction supplied by magnetic wheel sensors and a compass.

When the driver selects the destination, the system calculates the route and displays it on a dashboard-mounted LCD monitor. The system also gives audible instructions.

The system, which costs £3,499 plus a £500 fitting charge, can only be used within the M25 (the London area) at present, but coverage will be extended across the UK by the end of next year. TravelPilot CD-Roms are also available for Switzerland and Germany.

Robert Bosch: UK, tel (0)1895 834466, fax (0)1895 838361.

Cinema/Nigel Andrews

Singalong with gargoyles

THE HUNCHBACK OF NOTRE DAME
Gary Trousdale and Kirk Wise

THE CABLE GUY
Ben Stiller

THE CELLULOID CLOSET
Rob Epstein and Jeffrey Friedman

KINGPIN
Peter Farrelly and Bobby Farrelly

FEAST OF JULY
Christopher Menaul

THE TIT AND THE MOON
Bigas Luna

Cultural crises always come in groups. Just as the French begin to recover from Disneyland, they get *The Hunchback Of Notre Dame*. This is the same kind of animal, albeit of a different colour. *Not so much* a white elephant, more an all-singing, all-dancing pachyderm in shades of russet, pink and olde-worlde gold.

Disney's 34th animated feature begins eo promisingly. The aerial camera swoops over the Gallic houses, with their gothic towers and armadillo tiling, while Paul Kandel's voice belts out the rousing opener, "The Bells of Notre Dame". We feel a little airsick, but it is nothing to the sickness to come.

This early, we sense that Victor Hugo might have given his approval to the steepling views of Paris squares and to the film'e equally vertiginous villain: the tall, lean, sepulchre-toned Judge Frollo, deftly voiced in speech and song by Tony Jay. But he would have withdrawn all blessing at the first sight and sound of Quasimodo, Esmeralda and the Gargoyles.

These eound like a rock group and pretty much behave like one. She is e gypsy with e voice like a sexy plumbing accident: it sounds like – it is – Demi Moore. He is a bad artist's impression of Charles Laughton with a "Gee, golly" American voice (Tom Hulce). And the Gargoyles are the "comic" relief, a trio of stone faces brought to life complete with bouncy stone torsos. They could be three amputees trying to liven up a hospital party.

Once the plot gets going, the miscalculations multiply. The songs sound like poor relations of *Les Mis*, another renowned Hugo singalong. The images veer between repetitive virtuosity (so much computer-aided soaring and swooping) and strident *grand guignol*. And Frollo apart, the best character is Esmeralda's goat – we kid you not – e bearded, lollopy charmer who is thrown away in a few visual asides.

The Cable Guy, vilified by many American critics, proves a blessed relief. Jim Carrey may resemble a quarter-back more than a hunchback, but be can swing from the movie masonry with the best of them. Here his manic cable-installer befriends, or more exactly socially terrorises, mild-mannered yuppie Matthew Broderick. No eooner has Carrey plugged Broderick in to the delights of umpteen-channel viewing than he tries to hotwire their relationship with gifts, phone calls and nights out at ghastly mock-medieval restaurants.

This is *Fatal Attraction* without the sex. Or perhaps the sex is there but hidden. Carrey'a obsession is explained only by e brief, perfunctory back-story – as e child he longed for a younger brother – but then it really needs no explanation. It is enough to note this man'a skewed expressions, elaborate lisp, eyes like twin tunnelling drills and cryptic hody language to realise that he is a force of natural insanity, like Norman Bates or Jerry Lewis.

At $20m a role, Carrey is the highest paid comedy star in movie history. But what *should* one pay for a man who turns each *facial reaction*, each line-reading into e vandeville routine? It is not just the elasticity, it is the timing. When Broderick, troubled by his new friend's unecknowledged speech defect, says gently "My brother is a speech therapist", Carrey replies with a slow, perfect, faintly hostile incomprehension, *"Tho??"* And when the after-meal jousting begins at the restaurant – but no, there are some moments you should savour for yourselves.

★

The Celluloid Closet is a history of homosexuality in Hollywood cineme. Film-makers Roh Epstein and Jeffrey Friedman, adapting the 1981 book by gay film critic Vito Russo, peer into the shadowy cupboard space of American movies to see how, when and in what guises homosexual characters were allowed to show, or half-show, themselves.

Mostly it is the usual suspects. The non-denominational sissy (Edward Everett Horton); the cross-dresser (Dietrich in *Morocco*, Curtis and Lemmon in *Some Like It Hot*); the mixed-up kid (Sal Mineo in *Rebel Without A Cause*); the man or woman with a Frightful Unexplained Secret (Clift in *Suddenly Last Summer*, MacLaine in *The Children's Hour*).

Funny and informative, the film rounds up its own raconteurs, including Armistead Maupin, Tom Hanks, John Schlesinger and *Miss* MacLaine. And Gore Vidal tells tales out of school about the homosexual subtext he wrote into one scene of *Ben-Hur* in an interview that has had Charlton Heston raging ecross America abont revisioniet gay screenwriters. (With enemies like that, who needs friends?)

Between the experts come the excerpts, rendered cherishable by time. In *Gentlemen Prefer Blondes* Jane Russell'e dance in the shipboard gym, with self-absorbed Adonises somersaulting all around ber, is a riot of pre-Village People kitsch. And Rock Hudson "pretending" to be gay in order to get close to Doris Day in *Lover Come Back* has so many ironies that it is like gazing into a hall of mirrors.

There are notable omissions. Where is Clifton *Laura* Webb, wit, savant and *misogynist*? Where is Louise Brooks, swooningly androgynous in boy's clothes in *Beggars Of Life*? And never mind actors, what about the directors? The film seems not even to notice the monstrous irony that one of its hand-picked films *The Boys In The Band* – virtually the first to show gay men openly living and interacting – was directed by the same man, William Friedkin, who perpetrated *Cruising*, rightly picked out as the great homophobic trendsetter of modern genre cinema. Surely worth a quizzical aside?

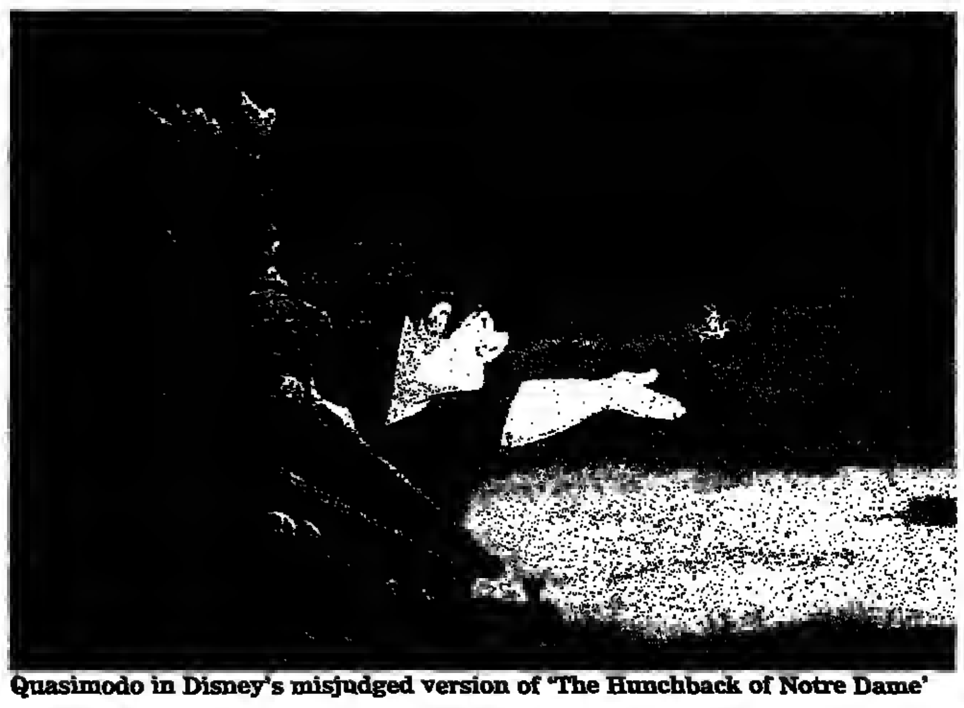
The rest of the week is barely worth that. Pins are whet you should stick into yourself during *Kingpin* if you wish to stay awake – but then why should you? – during this lacklustre comedy about bowling. Woody Harrelson and Randy Quaid wander the West seeking whom they may con. Woody is a bowling alley hustler with an iron hook for a hand. Randy is an Amish in a blonde Shirley Temple hairdo.

Why the book? Why the hairdo? Why not. Something has to amuse us during the *longueurs* between the guest vignettes by Bill Murray, who *cleans up the film every time* he appears as a fright-wigged fellow hustler effervescing with mean one-liners.

Feast Of July takes us deep into Merchant-Ivory country and leaves us there, without food, money or the means to get bome. This is an H.E. Bates-based tale of an adopted girl (Embeth Davidtz of *Schindler's List*) who, after miscarrying an illegitimate child, throws berself on a family's mercy in late-Victorian provincial England.

Three brothers vie for her love, while she, they and the parents (Tom Bell, Gemma Jones) gloom through the post-Industrial Revolntion murk. The purling rivers, lamplit streets and cobhlestones all have more vitality than the cast or direction, which both seem struck down by e bad case of Literary Respect.

At least Spain's *The Tit And The Moon*, directed by *Jamon Jamon*'s Bigas Luna, is equipped with the eye-pleasing items of the title. The moon gleams down on nine-year-old Tete (Biel Duran), who bends his own gleaming face to the gorgeous gypsy girl (Mathilda May) whom be spies on daily in her nearby caravan. She in turn owns the shiny mammary objects coveted by him and his teenage brother. Farouche; Fellini-esque; quite funny.



Quasimodo in Disney's misjudged version of 'The Hunchback of Notre Dame'

Theatre/Alastair Macaulay

A very British 'Uncle Vanya'

A Chekhov play is not Chekhovian if it is not full of contradictions. A says "The world is getting worse and worse", B says "In two or three hundred years' time, human existence will be wonderful", C says "My whole life is meaningless", D says "I'll make the tea." Sometimes it is the same person who utters self-contradictions or inconsistencies. Is life futile? or useful? In Chekhov, both. But there is no contradiction, no conflict, no urgency, in the new Chichester *Uncle Vanya*. Directed by Bill Bryden and cast from strength with Derek Jacobi, Trevor Eve, Alec McCowen, Frances Barber, Imogen Stubbs, Peggy Mount and Constance Cummings, it is passive, polished, tepid, insincere. It is not, in any serious way, Chekhovian. More important, it is not interesting.

The most disturbing thing that happens in the whole staging is when Barber, as Sonya, burls down a trayful of medicines at her hypochondriac father, Serebryakov (McCowen). And Barber – though some of her performance is unsuccessful – seems to be the only actor in the cast interested in reconceiving the character she plays. Peggy Mount, as the old nanny, reconceives nothing; hnt she illumines every little scene she plays with her sheer humanity. The edge of cheerfulness with which she saye "They've gone!" in the closing scene is beautifully funny, one of several moments in which she refreshes a staging that keeps growing stale about her. Cummings is charmingly simple and dignified in her tiny role as Vanya's mother.

There is little humanity or sincerity to be found elsewhere. There is, however, e great deal of acting. Mellow, skilled, charming acting, much of it, often intelligent, often sensitive. But futile, so that the futility of life that Chekhov tries sometimes to suggest turns here to mere torpor. All the big climaxes of the play – Vanya (Jacobi) and Astrov (Eve) being drunk together et night, Vanya entering just as Astrov is kissing Yelena, the woman he himself adores (Stubbs), Vanya trying to shoot his ex-brother-in-law Serebryakov (McCowen) – dissolve in this production into mere acting. Likewise all the big moments of energetic talk – Astrov enthusing about trees, Yelena edmitting to herself that she is attracted to Astrov, Vanya exploding about how he has wasted his entire life – ebb away into pretty *assemblies* of actory effects.

Listening to the fruity pyrotechnics of Jacobi and McCowen is like going to a "Three Tenors" concert. Their burnished tone formation and sculpted vowels are always a treat, of course, and no sooner does Jacobi here build his biggest scene up to e few splendid top notes and departs, than McCowen promptly hits some yet higher and yet louder notes. And, to these older but more *technically accomplished* guys, Trevor Eve is happy to play Carreras: he switches on the intensity, the charm, the ardour, the moodiness in seamless virtuoso arcs, none of which ring true for e moment.

Stubbs, alas, really does not belong on the same stage as these clever old thesps. No *doubt she means to show* that Yelena is a superficial and silly woman, but she does so with so much superficial and silly acting of her own that one grows quite confused. Barber, whose account of Sonya as inhibited and schoolgirly has its bold momants, unfortunately takes a few leaves out of Stubbs's book as the play develops.

Bryden's production epitomises all that is worst in British Chekhov. Not so much elegiac as stagnant; mixing artful *bel canto* with a *lieder* recital; and now and then a few unconvincing noises off. The amplified scratching of a pen in the closing scene reminded me of *Acorn Antiques*.

Minerva Theatre, Chichester, until July 27.

Much acting, little humanity: Trevor Eve and Imogen Stubbs — Alastair Muir

Ballet/Clement Crisp

Rambert ascending

I said to a long-time associate of Dame Marie Rambert: "She's up there on her cloud feeling very happy tonight". "Yes", came the reply, "and busy counting the house". For there was her company, now Rambert Dance but still hers in spirit, taking the Coliseum by storm, filling the stage with a sunburst of dancing. This week's season shows the troupe dancing better than ever before in my experience – which goes back to Ballet Rambert's days on the 18-foot-square stage of the Mercury Theatre in Notting Hill Gate.

All honour to Christopher Bruce for having inspired the ensemble which he now directs to this level of excellence. I can even forgive the patronising subtitle for this venture as "The People's Season", which equates the laudable price limit of £20 for a seat with some illusory crowd of people who do not, or will not, pay more for dance. "The people" will go to dancing if it is well presented: it is a tragedy for all forms of dance in this country now that marketing is feeble, off-putting. This season has been well-sold, but it deserves success for artistic rather than pricing reasons.

The opening of the first programme on Tuesday night was, though, calculated to send music-lovers screaming into the night. It was no less calculated to send dance-lovers towards the nearest exit. Rambert has e fine orchestra in Mark Stephenson's London Musici, and to find Mozart and Bach degraded by fatuous choreography is bad news.

Jiri Kylian's *Petite mort* – a euphemism for orgasm – is about six men in fortified beige knickers who are armed with foils. (Ah, the subtle imagery.) Six girls, hidden behind ambulant cut-outs of dresses but also daintily attired in underwear, join them. The men strut, the girls are manhandled, and Kylian's musical sensitivity – akin to Jack the Ripper's feeling for petit-point – sets them grappling to two slow movements from Mozart piano concerti (including, inevitably, that known to "the people" from *Elvira Madigan*). The piece is typical of Kylian's turgid, gymnastic manner. It is sensationally done by Rambert's artists, who take to the Coliseum stage as to their native heath.

Worse follows. *Axioma 7* is e clunker from Ohad Naharin, who dresses 19 dancers like waiters at Le Pansy Café, seats them on chairs, makes them take their clothes off and rampage pointlessly, while Mark Stephenson's musicians play Bach's fourth Brandenburg concerto in fine style. In a moment of silence a couple of chaps show us that it takes two to tangle. The Rambert dancers are superb, but they would be better employed throwing rocks at Mr Naharin than rushing about in this foolish exercise.

Order was restored with another serious score, again well performed. Robert Cohan's realisation of Vivaldi's *Stabat Mater* is a luminous work for eight women who surround the lovely Sara Matthews, whom we identify with the Blessed Virgin. Cohan's chorography is absolutely sure in its simplicity and purity of means: it is reminiscent of a Martha Graham piece from the 1930s. Given with a serene purity of style by its cast, it has quietness of spirit, and is to be treasured because of this, and because of the women's sensitivity.

This first programme ends with Bruce's affirmation of faith in international amity – the brave *Meeting Point* he made for last year's San Francisco shindig to celebrate 50 years of the United Nations. Much of what was on show as dance on that occasion deserved rigorous sanctions. Bruce's dances, with their amused nod at *The Green Table*, reminded audiences of the virtues of well-made choreography and of gifted and dedicated dancers. The piece looks splendid on the Coliseum stage, and it is danced with tremendous verve. The score, a saxophone concerto by Michael Nyman, is redeemed by the dazzling playing of Gerard McChrystal.

The evening ended, as it should, in cheers and more cheers. Seventy years after Marie Rambert took her first little group of students – they included young Fred Ashton – to dance in a revue in Hammersmith, and after Himalayan ups and downs of fortune, Rambert Dance has climbed Everest and proudly placed its flag on the summit. Cheers for them. And cheers, too, for Granada Group, who have sponsored this season.

The Rambert season continues this week. Additional sponsorship by The Quercus Trust, Mr & Mrs George Loudon, and *LOOT*.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-5730573
● Maria João Pires, Augustin Dumay and Jian Wang: the pianist, violinist and cellist perform works by Schubert; 8.15pm; Jul 14

EXHIBITION
Stedelijk Museum Tel: 31-20-5732911
● Cobra en het Stedelijk: exhibition of paintings and sculptures from the museum's collection by participants of the international art group CoBrA. The works on display, approximately 150, span the period from 1948 to 1962. Included in the exhibition are 17 works by Corneille that were donated to the museum by the artist last year; from Jul 12 to Sep 15

ANTWERP

OPERA
De Vlaamse Opera Tel: 32-3-2336808
● La Fanciulla del West: by Puccini. Conducted by Silvio Varviso and performed by De Vlaamse Opera. Soloists include Stephanie Friede, William Stone and Richard Margison; 8pm; Jul 12

BAD KISSINGEN

CONCERT
Kissinger Sommer Internationales MusikFestival Tel: 49-971-807110
● Münchner Rundfunkorchester: conductor Fabio Luisi, soprano Christiane Oelze, alto Jochen Kowalski and baritone Boje Skovhus perform excerpts from Die Lustige Witwe and Die Fledermaus; 8pm; Jul 12

DUBLIN

CONCERT
National Concert Hall – Geoláras Náisiúnta Tel: 353-1-6711888
● The Irish Chamber Orchestra: with conductor/viola-player Bruno Giuranna and violinist Franco Gulli perform works by Mozart and Britten; 6.30pm; Jul 12

ESSEN

EXHIBITION
Design Zentrum Nordrhein Westfalen Tel: 49-201-8202118
● Design-Innovationen '96: exhibition showing a selection of works competing for this year's international industrial design award; to Aug 25

GHENT

EXHIBITION
Museum voor Sierkunst en Vormgeving Tel: 32-9-2256676
● Jan Eisenloeffel. Art Nouveau-gebruiksgoed in zilver, email en goud: retrospective exhibition devoted to the work of the Dutch decorative artist, gold and silversmith Jan Eisenloeffel. The display features some 200 objects, including coffee- and tea-sets, dishes, jewellery, clocks, lamps and cutlery; to Sep 15

GRAZ

CONCERT
Styriarte Graz Tel: 43-316-70313835
● Hesperion XX: with conductor Jordi Savall and soprano Montserrat Figueras perform music from "El Siglo de Oro", the golden age of Spanish music which coincided with the discovery and conquest of America; 8pm; Jul 13

HOUSTON EXHIBITION

The Menil Collection Tel: 1-713-525-9400
Georges Rouault: exhibition of works by Georges Rouault (1871-1958) including 75 paintings, works on paper, and objects drawn primarily from The Menil Collection holdings; to Aug 18

LAUSANNE

EXHIBITION
Fondation de Hermitage Tel: 41-21-3205001
● Armand Guillaumin 1841-1927. Un maître de l'impressionisme français: retrospective exhibition devoted to the work of the French Impressionist Armand Guillaumin. The display includes more than 150 paintings, drawings, pastels and engravings from public and private collections in Europe and the United States; from Jul 12 to Oct 20

LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● Florilegium: and cellist Pieter Wispelwey perform works by Arne, Storace, Haydn and J.C.Bach; 7.30pm; Jul 12

EXHIBITION
National Portrait Gallery Tel: 44-171-3060055
● John Deakin – Photographs: retrospective of the photographic work of John Deakin (1912-1972). The exhibition comprises more than 100 black and white prints with emphasis on Deakin's portrait work. Also included are his fashion and urban landscapes as well as a selection of the photographs taken for Francis Bacon to work from; to Jul 14

Tate Gallery Tel: 44-171-8878000
● Still But Not Silent: this exhibition brings together still life paintings and sculptures from the Tate Gallery's collection by British and foreign artists. The works range in date from the late 17th century to the present day; to Jul 14

THEATRE
Barbican Theatre Tel: 44-171-6384141
● Romeo and Juliet: by Shakespeare. Directed by Adrian Noble and performed by the Royal Shakespeare Company. The cast includes Christopher Benjamin, Susan Brown, Julian Glover and Michael Gould; 7.15pm; Jul 12, 13 (also 2pm), 15, 16 (also 2pm)

LOS ANGELES

CONCERT
Hollywood Bowl Tel: 1-213-850-2000
● Hollywood Bowl Orchestra: with conductor John Mauceri, vocalists Jodi Benson, Lorna Luft and Harry Groener, pianist Leon Bates and The Mitch Hanlon Singers perform Gershwin's Rhapsody in Blue, selections from Girl Crazy and I Got Rythm; 8.30pm; Jul 12, 13, 14 (7.30pm)

EXHIBITION
Huntington Library, Art Collection and Botanical Gardens Tel: 1-818-405-2100
● Landmark in Printing Collecting: Masterpieces from the British Museum: the first exhibition of 100 prints selected exclusively from the British Museum's collection to travel to the United States. The show features works spanning the history of western printmaking from rare 15th century German woodcuts to American etchings and lithographs of the 20th century; from Jul 12 to Sep 29

NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● Mostly Mozart Festival Orchestra: with conductor Claus Peter Flor, pianist Horacio Gutiérrez and violinist Pamela Frank perform works by Mozart and Schubert. Part of the Mostly Mozart Festival; 8pm; Jul 12, 13

EXHIBITION
International Center of Photography Tel: 1-212-860-1777
● Landscapes of the Civil War: Newly Discovered Photographs from the Medford Historical Society: assembled from more than 5,000 Civil War original albumen prints in the collection of the Medford Historical Society, this exhibition of close to one hundred prints provides an opportunity to survey examples of Civil War photographic reportage.
The prints on display are in unusually fine condition for works of this period, as they were seldom handled or exposed to light before their rediscovery in 1990. The exhibition presents the work of photographers such as Alexander Gardner, George N. Barnard, A.J. Russell and Thomas C. Roche as well as the work of many unknown photographers; from Jul 12 to Nov 10

ZURICH

OPERA
Opernhaus Zürich Tel: 41-1-268 6666
● Il Matrimonio Segreto: by Cimarosa. Conducted by Adam Fischer and performed by the Oper Zürich. Soloists include Malin Hartelius, Isabel Rey, Stefania Kaluza and Anton Scharinger; 7pm; Jul 12, 14

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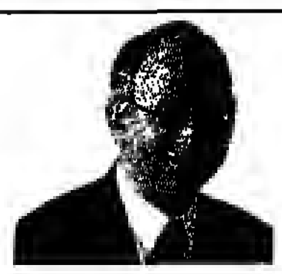
10.00 *European Money Wheel* Nonstop live coverage until 15.00 of European business and the financial markets
17.30 *Financial Times Business Tonight*

CNBC:
08.30 *Squawk Box*
10.00 *European Money Wheel*
18.00 *Financial Times Business Tonight*

COMMENT & ANALYSIS



Peter Martin

The spirit of temptation

Big drinks companies are being urged by impatient shareholders to improve earnings, but Guinness and others are finding it hard to expand in new markets

One way of looking at the Guinness story is to see it as a fable of Virtue Resisting Temptation. Britain's biggest consumer goods exporter by a factor of four, a company generating pre-tax profits equivelent to nearly 20 per cent of sales, is under pressure from those perennial moaners, the shareholders. The company is going sideways, they complain: earnings per share are below the level of five years ago.

Casting around for a Big Idea to get the shareholders off their backs, Guinness's directors think the unthinkable – what about a takeover bid for the biggest UK-based rival, Grand Metropolitan? Ever-helpful, the merchant bankers prepare reams of feasibility studies.

To get the full flavour of the fable, you should picture the subsequent board meeting as a Tiepolo, a symphony of pinks and light blues. The Guinness board, upright citizens to a man, is recoiling in horror at the gaudy image of Temptation, a lady with an all-too-obvious past. Pushing her forward are a group of well-dressed attendants who have clearly profited from similar transactions many times before: lurking in the background is the lady's former consort, a titled gentleman of retiring aspect.

To sketch the picture is to know the outcome: Guinness's directors resisted the temptation. It would be churlish to suggest they might have been swayed by the thought that picking a fight with Grand Met is only one degree safer than tangling with Tiny Rowland in his prime. No, put the decision down to pure high-mindedness, a suddenly rediscovered commitment to the words of the chairman's statement published only a few months before. "Our business is about growing brands of alcoholic drinks around the world," wrote Tony Greener then. "That strategy is essentially an organic one."

Easier said than done, alas. Guinness, like the other members of the world's international spirits league, must cope with a number of difficult issues. The biggest one – as the latest shareholder rumblings suggest – is the burden of exaggerated expectations built up by the industry's astonishing success in the late 1980s.

Almost overnight, the industry transformed its economic structure, moving from a business model in which the distillers handed over most of their profit to their fiercely independent importers and wholesalers to one in which they owned their own distribution networks. Not only did they keep much more of the value added, they were able to market their products effectively as global consumer brands, in a way the old fragmented distribution pattern had prevented.

This one-off shift in profitability coincided with another unrepeatable event – the bubble of prosperity and confidence in the late 1980s. Such fleeting public moods have particular significance for the manufacturers of luxury goods and premium brands: they encourage consumers to believe that only the best is good enough, and only the most expensive is the best.

In such an atmosphere, it was easy for the distillers to think that higher prices would compensate them for the shift in taste away from brown spirits such as whisky and brandy. At the very least, they could hope that consumers who drank less would drink better, moving up-market towards more expensive brands.

If that was ever true, it required more in the way of advertising expenditure than the spirits companies were willing or – given the scale of hostility to drinks advertising in many developed countries – able to spend. As might have been predicted, volumes have suffered throughout the 1990s. According to the industry newsletter Impact International, Guinness's spirits volumes have fallen at an average annual compound rate of 0.9 per cent since 1990, Allied Domecq's by 1.5 per cent. Grand Met's are flat. The top 10 brands are down by 1.1 per cent a year over the period.

But the anticipated offsetting gains in margins have been slow to materialise. Guinness's operating profits on spirits have dropped back from over 30 per cent of sales in 1990 to around 26 per cent – slightly higher than in 1994 and well above the levels of the mid-1980s, but the trend is worrying all the same.

Still, the industry is highly profitable, with enviable brands and a much stronger global distribution system. In that respect it has survived the difficult early 1990s in good shape. As the Guinness board's ponderings make clear, the problem is not so much how to cope with past bad times as how to ensure continued growth now things are better. The industry's future clearly lies in emerging markets where tastes are not yet fully formed, brand images are open to manipulation and demography is favourable. After all, such markets have transformed the outlook for the tobacco industry in the past decade, and tobacco companies were faced with much more adverse shifts of developed-country habits than anything the spirits industry has had to cope with.

Yet these markets are also the home of the biggest gap in the spirits industry's global achievement. Merely to read down Impact's list of the world's top brands is to get a measure of that failure. Head of the list is Stolichnaya vodka, which sells 60m nine-litre cases worldwide, 58.3m of them in Russia. That's not so surprising, you say. But guess what comes next? It is Jinro Soju, a white spirit from Korea, which sells 43m cases, up 6 per cent from the year before. Next comes another Russian domestic-market vodka, Moskovoskaya, and after that another drink you have probably never heard of: Pirassununga 51, an aguardente from Industrias Muller de Bebidas of Brazil. And fifth comes Ginebra San Miguel, a gin from the Philippines, with 24m cases, up 17 per cent from the year before.

Here is the issue: as these countries grow rapidly in wealth and consumer sophistication their citizens are drinking a bit more of the west's premium products. But they are drinking a *lot* more of their local brews, and each year the marketing effort behind them gets smarter. The global spirits companies have made no real inroads into these traditional markets. Not surprisingly, perhaps: such products sell at prices well below those of the premium international brands and ownership of local distillers is tightly held. But unless they enter these markets, the big companies may find that much of the growth of the emerging economies escapes them. There was a worrying signal last year when growth of the international brands slowed in many emerging economies, but sales of local brands continued to rise rapidly.

Despite the marketing-speak from the global distillers, alcohol is not like other branded consumer goods: it is intimately related with social ritual in many countries. To succeed in launching an imported brand is to tap into a country's central myths. As societies gain in affluence and confidence, they are – not surprisingly – more choosy about the myths they are prepared to subscribe to, a trend which partly offsets the homogenising effects of global culture.

The big spirits companies face a difficult choice. If they restrict themselves to the premium global brands they have successfully exploited so far they face a future of frustrated growth expectations and an ever-present temptation to merge in order to cut costs. But at least they will be operating in familiar territory, manipulating the social rituals and cultural iconography of the north Atlantic. If they try to break into the parts of the market where growth is strongest, they face a frustrating time: haggling to buy local brands, dealing with pricing, costs and cultural frames of reference with which they have no instinctive sympathy. Rejecting temptation, as the Guinness board will discover, yields at most a brief glow of virtue before the dilemma returns, just as strongly as before.

BOOK REVIEW: Christopher Parkes

EAST TO AMERICA: Korean-American Life Stories
Edited by Elaine H. Kim and Eui-Young Yu
The New Press, 386pp, $25

Voices from the killing fields of Los Angeles

Among the most enduring images of the Los Angeles riots in 1992 were the flickering silhouettes of armed Korean shopkeepers, raging and incoherent, against a backdrop of fire. Videotape of the catastrophe rolls endlessly in the LA Museum of Tolerance, showing looting whites, blacks, Latinos and Asians scampering like rats and laughing.

In this book's mournful collection of reminiscences, the small voices of Korean Americans caught in the eye of storm they know as *sa-i-gu* (April 29, the day the riots started) emerge fractured and sad from the debris.

Inspired by events caricatured as a revenge-taking by blacks on grasping Asian shopkeepers, the book is an attempt to represent ordinary lives "so often effaced, transmuted or covered up" by history.

Better still, for most readers, it is an illuminating introduction into an enclosed, struggling ethnic community, scraping for a toehold on America's western seaboard.

The book's vigour lies in reflections on the trials and occasional triumphs colouring ordinary lives lived in extraordinary circumstances. They concern people born in Korea and brought up in the US.

Unlike the uniformly inarticulate howlings of the shopkeepers broadcast as the mobs torched their livelihoods, the voices here are varied: bitter, self-critical, resentful, reconciled.

There is K.W. Lee, for example, who describes LA's Koreatown as a "killing field" for dreams and people. He snorts at the deluded clustering together of Korean immigrants now "trapped" in a ghetto area where "the Jews were burnt out in 1965".

"We have replaced the Jews in the black American psyche. The intensity of [black] resentment and contempt ... is amazing." Koreans have failed to understand or recognise other value systems, he charges. Their aloof attitude – in street culture – amounts to nothing less than "dissing" (showing disrespect), and "dissing" is a failing which can get you killed whether you are Korean or a drug addict.

According to the book's editors, southern California's Korean merchants are still being murdered at a rate of one a month. Their vulnerability stems mainly from the shortage of economic options open to undercapitalised immigrants other than shopkeeping in poor, distressed communities.

But Mr Lee's gruff voice, not especially shocking in a community where the members are routinely fiercely critical of one another, provides more insight. Korean Americans, he says, are deeply afflicted by their country of origin's history of wrenching changes wrought by the cultural and territorial ambitions of Japan, China and Russia. Their past is marred by invasion, expatriation, "betrayals, frustrations, self-immolations".

The results, according to Mr Lee, include "the absence of our own value system" and an excruciating introversion. The concept of trust, for example, is confined to small, unconditionally-bonded groups.

If breached, the bonds are transformed into "a grudge that lasts for ever", he says. While such a system may have evolved as a protection against alien oppression in the past, the exclusivity of this intensity seems more of a prison in free-flowing US society.

"We share the [Judeo-Christian] work ethic, the pursuit of education and the belief in the family; but we don't share the sense of community conscience," he says.

Looking for the roots of cultural conflict is one thing. Explaining the catastrophic consequences to Mr Dong Hwan Ku, an architecture graduate from Seoul, is another. He runs a small store, working 14 hours a day, seven days a week. "I am scared every day. I have been beaten, cursed and spat upon ... When I finish paying off my debts I hope I can go back to Korea."

Mr Ku, not yet 40, is crushed. He is one of the victims derided in a contribution from Mr Paul Kim, a police lieutenant, who advises: "So what if you were a victim? Get in line: there are 100,000 ahead of you."

Mr Kim is a hard man, true to his LAPD colours. He has some sympathy for devotion to hard work, but like Mr Lee, he sees "people are really living an oppressed life". Mr Kim, who tangles daily with every ethnic group, believes the oppression results from a lack of "real sympathy for other people", Korean or otherwise.

Mr Tong Sun Lim, a Christian minister, believes the trouble lies with the community's lack of experience rather than any shortage of values or self-confidence. Jews, he notes, have a 300-year history in the US; the Chinese 150 years and the Japanese 100. But Koreans have been present in discernible numbers for only 30 years. In three generations, he believes, his people will have found their place.

Sa-i-gu is still widely seen as just another rupture in LA's ragbag social fabric. But this book hints at a far more substantial significance for the city and the future of these assiduous, ambitious newcomers on America's Pacific coast. It marks the emergence of a new articulacy and a sense of common cause.

In the words of Mr K.W. Lee, the fateful day was a defining moment: "Our Warsaw, our baptism of fire ... a blessing in disguise. The larger picture will emerge a generation from now. It will become an epic."

East to America *is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK*

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

EC frustrated in earlier attempt to investigate airline alliances

From Mr Jonathan Faull.

Sir, Your editorial "Squalls over the Atlantic" (July 8) considers the European Commission's investigation of transatlantic airline alliances and argues that the Commission should have asked the Council of Ministers long ago for a remit to deal with the specific competition issues involved.

The Commission did just that, proposing in 1989 that the Council extend the regulations implementing the Treaty of Rome's competition rules to air transport within the EU to routes between the EU and foreign countries.

The Council has not adopted the necessary regulations so the Commission has fallen back on the original treaty article which provides for enforcement of the competition rules, Article 89. It is not for want of trying to secure a better legal framework that this step, necessary for the proper implementation of competition policy, was taken.

Jonathan Faull,
director,
directorate-general for competition,
European Commission,
Brussels, Belgium

Even bigger bite by US law on Cuba trade

From Ms Ruth Wedgwood.

Sir, In his article "The long arm of American law" (July 8), Stephen Fidler laments the treble damage lawsuits that may soon be looming in US federal courts against foreign companies trading with Cuba. Unhappy corporate counsel will wish to note another set of teeth in the American boycott legislation.

Foreign companies may be liable not only for the profit they make from a transaction (times three), but also for the entire underlying value of any expropriated property used in any way in the transaction.

In other words, a European company's arm's-length purchase of one ton of sugar cane from a nationalised farm, or 1,000 pairs of shoes from a factory, could expose it to a recovery amounting to three times the value of the entire farm or factory.

This stems from the Helms-Burton Act's broad definition of "trafficking" in property – to include all commerce "using or otherwise benefiting from confiscated property". Though Congress's real target may have been equity stakes, joint ventures, and management of confiscated property – see Section 301(S) – the statute's broom sweeps widely indeed.

Ruth Wedgwood,
professor of law,
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Non-existent water quality

From Mr David De Burgh.

Sir, It always amuses us, living as we do on the Costa Blanca, when we read about the pressure within the UK and from the EU for water quality to be raised in the UK. Here the water "quality" is non-existent, as is the water for many days in high summer, but the tourists still flock in from northern Europe and never complain!

I have just tested our tap water today and the nitrate level is about 50 mg/litre which (according to my test kit) is double the European recommended safe limit and at or above the danger level, let alone the foul taste and smell which is present at times.

David De Burgh,
Buzon T 509,
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03724 Moraira,
Alicante, Spain

Tuned in to the Internet

From Mr Adrian Dunskus.

Sir, It is unfortunate that Richard Vadon, when writing his piece on radio on the Internet (Media futures: "A radio Renaissance worldwide", July 8), did not consult Wolfgang Münchau, your excellent Frankfurt correspondent.

It would have saved Mr Vadon from asserting that "Virgin is the only European radio station broadcasting live on the Net", which is not true. Bayerischer Rundfunk, one of the biggest members of Germany's Public Radio and Television (ARD), has been feeding its all-news programme, B5aktuell, live into the Net since October.

Anybody interested can get up-to-the-minute news from Germany in German at http://mats.gmd.de/br5/index.html. Our site, technically supported by GMD, Germany's Society for Mathematics and Data Processing, allows the user to download the required Streamworks player software, which we chose over RealAudio because Streamworks provides for CD-like reception if the Internet connection is established with ISDN bandwidth. Apart from that, our experience over the past year bears out the assessment of Howard Freeman, quoted in Mr Vadon's article, that Net users are information-driven and therefore flock to sites that provide pure information (like ours does).

That said, let me finish by adding that, for me, Media Futures is a must-read every Monday.

Adrian Dunskus,
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Germany

Economically represented

From Dr Eamonn Butler.

Sir, As Murray Rothbard in life denied the holocaust, now his posthumous book denies the importance of Adam Smith to economics. The surprise is Michael Prowse ("Dethroning Adam", July 8) gives it so much space. To say that Smith's labour theory of value enabled Marx to concoct his silly "exploitation" ideas is indeed unoriginal. To blast his support of bank regulation or income tax as "bumbling interventionism" says more about Rothbard than Smith.

Smith's bold critique of trade restraints made possible the 19th-century era of liberal economics and rising prosperity. His "invisible hand" theme illustrated how societies could evolve in harmony and co-operation without the need for interventionist planning. Yet Smith's path-breaking social analysis does not feature in Rothbard's book.

Smith turned economics from metaphysical musings into an empirical science. In so doing, he rejected some promising but speculative theories by earlier economists. Rothbard mourns these losses, but in fact it was the empirical method he hated. Smith made mistakes, but wilful misrepresentation of his subject was not one of them.

Eamonn Butler,
director,
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Service adrift

From Mr A. Kevin Parkin.

Sir, With cross-channel services which run 24 hours a day apparently suffering cut-throat competition and involved in high-cost advertising campaigns in the press, I recently tried to book a crossing at 11pm.

All the companies had either answering machines or did not answer.

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COMMENT & ANALYSIS

FINANCIAL TIMES
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Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Thursday July 11 1996

Jobs for the boyos

Flags are waving in the valleys of south Wales and in South Korea for the generosity of British taxpayers. They gave the dowry for a *marriage of eastern capitalism* and Welsh labour in Newport, a former steel town suffering sadly from unemployment.

The industrial conglomerate, LG is to invest £1.7bn in an electronics plant, expected to provide more than 6,000 jobs. But the price has been high. The total subsidy, believed to be about £200m, represents a cost of £30,000 per job, far *the highest for any such project in* the UK and perhaps twice the amount that would have been considered reasonable until recently.

In one sense LG has scooped the pool. The financial inducement which it is being given is nearly equal to the total subsidy dispensed by the UK last year (to April 1996) under Regional Selective Assistance, when 477 inward investment projects were agreed.

Most of the foreign companies setting up in the UK came without being offered wads of handout. The country's remarkable success in attracting inward investment – 1,350 projects, providing 285,000 jobs in the last three years – depends more on solid attractions than cash in the hand. Britain's position in the EU, its language, low labour costs and relatively liberal approach to tax and regulations have all carried weight.

A recent study by the Institut der Deutschen Wirtschaft suggested that the ratio of profit to labour costs for new projects was higher in the UK than in any other developed country. It was 11 times higher than in Germany itself and 2½ times better than in the US. It is not surprising, therefore, that German companies are jostling to invest in the UK (58 new projects last year).

With such advantages, why does the UK need to pay so much to the Koreans? One answer is that the countries of Europe are engaged in an increasingly competitive subsidy race, from which all will ultimately lose. In the UK, the regional development authorities *are competing against each other* with similarly self-defeating results, despite a recent rebuke from the Treasury.

The fundamental difficulty in the UK, as in the EU, is that the rules governing state subsidies are chaotic; they derive from many quite unconnected schemes, from which ingenious agencies could in theory put together subsidies worth three-quarters of a project's total cost.

Consequently politicians have to judge whether each handout represents a sensible trade-off or just jobs for the boyos, a secretive choice in which any minister is likely to be fallible. The remedy is much more detailed public guidance from the Treasury, for example on what is a reasonable "cost per job", and less secrecy about the analysis of costs and expected benefits. Above all, there needs to be reform of EU rules on state handouts to make the practice fairer to all members, fairer to taxpayers and fair to the companies which do not get them.

Heavenly peace

Beijing and Washington have decided, belatedly, to patch up their squabbles of recent months. The visit to China by Mr Anthony Lake, President Clinton's national security adviser, has produced general agreement to swap summit meetings next year. Even without any commitment to a firm date or location, that is a transformation from the bickering of the past year. It is certainly to be welcomed.

Clearly both sides wanted to improve the atmosphere, and no doubt for their own political reasons. Beijing gave Mr Lake a five-star welcome, including talks with both President Jiang Zemin and Premier Li Peng, when it could have easily trotted out no more than a deputy foreign minister. As for Washington, it is clear the US administration has been involved in a serious reassessment of its relationship with the Chinese leadership, and has decided that it cannot be allowed to stagger from one obstacle to the next.

It is becoming increasingly clear that the most important international relationship in the first decades of the next century will be that between China and the US. But so far, neither side has worked out a reliable framework in which it can be handled. Instead, they have allowed a series of disagreements to escalate into potentially destabilising disputes.

First the Chinese became incensed over the private visit of Taiwan's President Lee Teng-hui to the US, and suspended talks in a series of bilateral committees. Then China's aggressive war games in the run-up to the Taiwanese elections prompted Washington to despatch two aircraft carriers to the Taiwan Straits. And twice this year, the US has come close to imposing trade sanctions, for alleged sales of nuclear technology to Pakistan, and for Beijing's failure to clamp down on piracy of US intellectual property.

Those disputes are now out of the way, and the US Congress has approved a renewal of most favoured nation trading status for its partner, by a comfortable majority. Hence the present opportunity to make amends.

The worrying thing for the rest of the world is that there will be a host of similar hiccups in the bilateral relationship in the months and years to come. Taiwan is a permanent source of friction, and will remain so until its status is finally resolved. The return of Hong Kong to Chinese sovereignty next year will also, almost certainly, produce new causes for confrontation, whether over human rights, or merely aviation rights for Taiwan.

Next year's summits must be used by both Beijing and Washington to create a reliable framework within which they can resolve and contain such disputes. A relationship so critical for the maintenance of world peace and stability cannot be allowed to stumble from one disagreement to the next.

Minimum wage

The almost certain passage into law of the bill to raise the US minimum wage from $4.25 (£2.70) to $5.15 is a politically significant event. The ability of the Democrats to pass the increase through a Republican-controlled legislature suggests politics is swinging leftwards. But the extent of that swing should not be overstated. It is still more important not to exaggerate the economic impact, for good or ill, of this rise.

Since the minimum wage is one of the totemic legacies of Franklin Delano Roosevelt's New Deal, the passage of this legislation is a welcome triumph for the Democrats. President Clinton is shining brightly in the opinion polls. Mr Newt Gingrich, architect of the Republican victory, is in eclipse. Now congressional Democrats can point with pride to their success in mandating higher wages for 10m low-paid workers.

Such triumphalism should be kept firmly in check. The minimum wage has been raised 18 times since it was first introduced, most recently in 1991. It is also – and will remain, after the increase – a largely symbolic gesture.

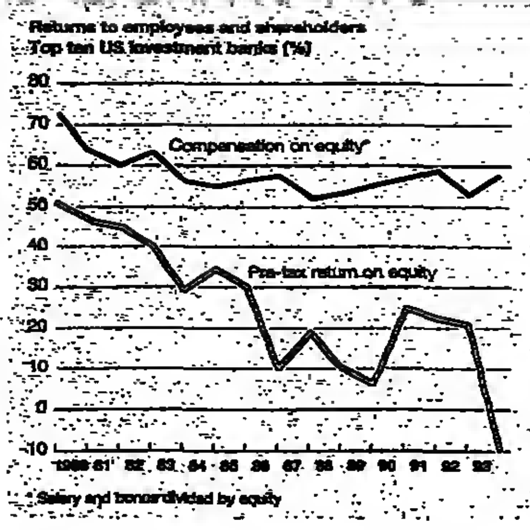
The reason is that its level is so low. The new minimum wage will directly affect only some 8 per cent of US workers. While its sterling equivalent is a mere £3.30 an hour, a minimum wage that bore the same relation to average UK incomes as the new US minimum wage does to average US incomes would be just £2.30 per hour. It says a great deal about the degree of wage inequality in the US that 8 per cent of its workers will be directly affected by such a low minimum. In the UK, the proportion would be far smaller: in fact, the proportion of full-time UK workers earning below £2.30 an hour is less than 1 per cent.

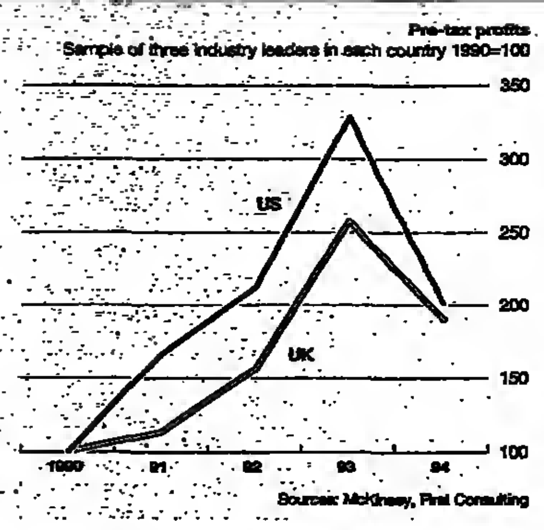
That the impact of the proposed minimum wage on labour costs will be so small does not make it a good idea. It merely means its adverse effects on the flexibility of the US labour market will be minimal. A minimum wage is a hypothecated tax on employers whose revenue is transferred directly to employees. Notwithstanding controversial suggestions to the contrary, such a tax is likely to have some adverse effect on employment.

More important, it is an ineffective way of helping the poor. A large proportion of those earning low wages are youngsters living with parents and part-time workers in two-earner households. If the goal is to reduce poverty or flatten an increasingly unequal income distribution, a more efficient policy is to target cash subsidies, via the tax and benefit system, on genuinely poor families.

The minimum wage is either tokenism or likely to damage employment. In the US, it is almost entirely the former. If they wish to make a real difference, left-of-centre politicians should be pushing for frankly redistributive fiscal policies, instead.

European investment banks: struggling to be global





Investment bank ratings for different products 1995

	Bookrunners international equity issues	Global M&A advisers	Bookrunners Euro & global bonds	US bond trading	Equity research
Goldman Sachs	1	2	3	5	6
SBC Warburg	2	10	4	Below 10	1
Morgan Stanley	3	1	7	8	10
Merrill Lynch	4	8	1	1	Below 10
Dresdner Bank/Kleinwort Benson	5	Below 10	Below 10	Below 10	7
Paribas	6	Below 10	Below 10	Below 10	Below 10
CS First Boston	7	3	2	4	Below 10
UBS/P&D	8	Below 10	Below 10	Below 10	8
Lehman Brothers	9	7	5	2	Below 10
BZW	10	Below 10	Below 10	Below 10	3

Rush for the big league

John Gapper on the strengths and weaknesses of European investment banks competing for a place among the global market leaders

European investment banks are being transformed. Little over a year since Barings' collapse caused a shake-out in the City of London, the largest have grown in size and ambition. Some now compete to join elite US investment banks such as Goldman Sachs at the top table of global institutions.

Few months have passed since the start of 1995 without one of these new contenders announcing a step in its growth. Some large banks, such as Dresdner Bank, have bought merchant banks such as Kleinwort Benson, while others like Deutsche Bank have tried to hire the best talent from market leaders.

Last week's announcement by the Credit Suisse group that it intended to merge its investment and corporate banking arms into a single body called Credit Suisse First Boston was another form of growth. In this case, it involved–putting together existing operations so they could work more effectively.

On paper, it created at a stroke a body that will challenge global investment banks such as Morgan Stanley *and Salomon Brothers* in terms of equity capital and employees. It is trying to put behind a decade of performing at less than its best because of internal tensions between staff in different divisions.

As these leviathans have been born, they have sent waves of disruption through the industry. Deutsche Morgan Grenfell, the institution created by merging a British merchant bank and the investment banking part of Deutsche Bank, has caused anger by poaching bankers with million-dollar bonuses.

Waves have also been felt on Wall Street. The long-awaited reform of Glass-Steagall, the US law separating investment and commercial banks, has not yet happened. But European banks have already accelerated their push into the US by hiring staff and buying firms.

For example, NatWest Markets, the investment banking arm of National Westminster Bank of the UK, last year paid £135m to buy a small mergers and acquisitions firm run by Mr Eric Gleacher, a former star at Kidder Peabody, the Wall Street broker. More recently it bought Greenwich Capital Holdings, a broker of US government bonds, for £590m to reinforce its fixed income side.

Meanwhile, Union Bank of Switzerland, an early entrant into London *investment banking* when it bought the stockbroker Phillips & Drew in the mid-1980s, has hired corporate financiers, equity analysts and bond traders on Wall Street. These incinda Mr John Costas, head of US bonds at Credit Suisse First Boston.

These banks argue that only by having a strong presence in the US domestic market can they rival a firm such as Goldman Sachs. "Once you have cracked the US, you are on your way. If you have not, there is a lot of pain ahead," says Mr Martin Owen, chief executiva of NatWest Markets.

The motives behind this rusb towards the big league are clear:

- Some European banks have no choice but to seek alternatives to *their traditional operations. Mar*gins on plain lending to large companies are now wafer-thin, while retail banking for small businesses and individuals is barely profitable in some European markets, particularly Switzerland.
- Although investment banking earnings are volatile, 1996 has been extremely profitable. Markets have risen and there has been a wave of mergers, acquisitions and equity issues. "This is a buoyant time in many ways," says Mr Maurice Thompson, bead of investment banking at Deutsche Morgan Grenfell.
- Many believe this is one of the last chances to make it as a global investment bank. Perhaps a dozen banks are competing to achieve this, and the consensus is that four or five at most will succeed. Some bankers fear that if thay miss opportunities for growth now, they will never be one of the leaders.

European banks have advantages in aiming for the top. The biggest one is financial muscle. This is partly a matter of capital. One of the main reasons for the CSFB restructuring was the wish to put the strength of Credit Suisse's balance sheet behind the investment bank'a expertise in underwriting and proprietary trading.

Mr Richard Briance, global head *of fixed income for UBS, says* a strong balance sheet gives banks an edge when companies want to raise cash by issuing bonds or shares. "We can put capital at a company's disposal immediately. That gives us more cards in our pack," he says.

Tha prospect that scares some US firms most is the sheer stamina of an institution such as Dentsche Bank which has enormous cashflow and traditionally undemanding shareholders. Few believe it will give up easily even if Deutsche Morgan Grenfell produces inadequate returns over several years. One senior director of a US bank says it now faces economically irrational competition.

Yet the elite US invest*ment banks have many* advantages that will be difficult to overcome. They offer a large range of services, from secondary trading of bonds to putting capital at risk to buy and sell investment portfolios for investors, and advising company chairmen on potential mergers.

Furthermore, US investment banks have the natural advantage of roots in the world's largest and most innovative capital market. Goldman Sachs or Merrill Lynch have used the earnings flow from profitable US operations to diversify into Europe.

European commercial banks have found it relatively easy to build bond-trading desks that can compete on price with a big US firm. It has been more difficult to break into the prized businesses that depend on long-term relationships and trust, notably the mergers and acquisitions advisory side.

One problem is that as competition drives down margins in the forms of investment banking that are easier to enter, it becomes more essential to sell a lot of services to each customer. An investment bank is most profitable when it is hired to execute complex deals and financial restructurings.

This creates a problem for several of the new entrants. How can they create an *institution* that not *only* looks powerful on paper, but makes money? "You can build revenue easily enough, but making a profit is a different matter," says Mr Simon Robertson, chairman of Kleinwort Benson.

The challenge of establishing sustainable profits is already hard for the long-established US firms. A global study by McKinsey, the consultancy firm, found return on equity among the top 10 US investment banks has fallen steadily in the past 15 years, while pay and bonuses have remained high.

It will be harder still for their European competitors, which lack the established culture of firms like Goldman Sachs. One director of a European bank says his rivals are *unlikely* to *succeed simply* by *hiring* the best talent from US rivals because they are are working against their own interests.

By hiring a collection of stars in bond or equity trading, or corporate finance, and rewarding them for their expertise in their own areas, European banks are creating divided, unstable firms. "The bonus system is at cross-purposes with what is good for the firm as a whole."

Mr Thompson, of Deutsche Morgan Grenfell, usually cited by rivals as relying on hired guns, says this criticism is over-blown. He says that the 200 new recruits comprise a small proportion of the 7,000 staff there. "The most important thing is to win business. Momentum creates a culture quite quickly," he says.

Momentum is what the European investment banks seek above all. The more optimistic believe the potential market for an investment bank that can provide services in Europe, America and Asia is growing because of long-term trends such as the move towards private investment and liberal markets.

Others are less sanguine about the competitive climate facing the new aspirants. "This is a mature business and it will carry on consolidating. It was given a new lease of life during the 1980s by financial liberalisation but that will only be a bubble," *says a director of a Euro*pean bank.

This is a worrying prospect for those that fail to take their place alongside the US elite. As competition has grown among brokers and traders in bond and equity markets, those outside the top five in any market may make marginal profits at best.

This could leave several banks which are now building their operations with an expensive network that does not have enough business to support it. Some investment banks are wary of being caught in this way. "There are advantages to being a tortoise, not a hare," says Mr Robertson of Kleinwort Benson.

The gloomiest observers argue the *entire notion* of *becoming* a global investment bank is flawed. Ms Claire Gouzouli, a director of First Consulting, a consultancy that has studied several large investment banks, says that it may be impossible for any of them to achieve their target.

She says investment banks have traditionally relied on being creative and swift to react to changes in markets. This involves talents that are crushed in big organisations. "In an economic sense, it does not maka much sense to try to become a global commercial and investment bank," she says.

Most European bankers are unwilling to accept such a gloomy view of their prospects. Yet many recognise that they are now in what could be a prolonged and tough battle from which only a few at most will emerge victorious. The best justification for many is that they have bittle choice but to try.

· OBSERVER ·

Make it happen

■ The world has become sceptical of media moguls' plans for grand alliances, whether to launch 200 channels of digital television, or to build the odd electronic superhighway. Egos have a way of clashing almost before the ink has dried on the deal.

But the latest proposed pact between British Sky Broadcasting, the UK satellite venture, and the Kirch group of Germany may have more substance.

There has been a rapid meeting of minds between two impatient men: BSkyB's Sam Chisholm and Gottfried Zmeck at DF1, the German digital satellite project which will launch later this month. Their bosses, Rupert Murdoch and Leo Kirch, get on too.

Both Chisholm and Zmeck have little patience for grand talk about strategic alliances. Both say, almost in the same breath, they are interested simply in "doing it".

Which is why the BSkyB-Kirch strategic alliance might actually endure. And why Bertelsmann, the German media giant, may come to regret fumbling its proposed alliance with Murdoch.

All at sea

■ "I am a passionate admirer, as I am told you are, of Patrick O'Brian's novels." As a way to kick off a letter it takes some beating – particularly if the recipient has never heard of Patrick O'Brian, as was the case with one of Observer's colleagues.

Max Hastings, editor of the London Evening Standard and author of the letter, goes on to issue an invitation to dinner – cost £55 – with the said author. "Rather than saying anything publicly, I am simply writing privately to ask some of Patrick's fans whom I can identify whether they would like to come." Well now it's public, Max. Perhaps some genuine O'Brian fans – he writes Napoleonic seafaring yarns – will be in touch.

Dear reject . . .

■ Mindful of the effect that rejection letters may have on unsuccessful applicants, caring companies try to soften the blow. It may make more hard-headed sense too, as today's reject may be tomorrow's valuable business contact or may be a customer.

Sadly, however, good intentions are so easily undermined. One applicant for a job at a financial house opened up a "No" letter to find warm reassurances. The rejection "should not be taken as a reflection on your skills and experience", it insisted, explaining that the number and quality of applicants had been exceptional.

A nice touch was the personal signature. But then he noticed the company letter reference – Rej2.

Bullish Merrill

■ When Merrill Lynch was bullish about America it flogged its emblematic bull for all it was worth. In assorted advertising campaigns, the beast was put atop a skyrise steel girder and made to walk through a china shop. Now that the US house has gone bullish about Spain, where it paid £18.5m for FG, the largest of Madrid's independent broking houses, it has come face to face with a thundering herd of the real thing.

Merrill's chief executive David Komansky, in Madrid to celebrate the takeover, took a leaf from Papa Hemingway's notebook yesterday and stole off to Pamplona where the annual bull run fiesta is in full swing. Will there be TV clips of the outsize Bronx-born former trader sprinting ahead of six menacing *toros* as they charge through Pamplona's narrow streets to the bullring and their death in the afternoon rendezvous? No such luck. Komansky said he planned to watch the run from a balcony.

Lion taming

■ So much for bulls. Latest addition to the business world's animal clan is actually the South African lion, its minister of trade and industry, Alec Erwin, tells the CBI's Invest in South Africa conference in London.

He goes on to offer an unusual encouragement for potential British investors: "Come and ride the lion – don't let it eat you."

One old lion doing the rounds is Cyril Ramaphosa, recently retired secretary-general of the ANC. The former labour leader is now deputy chairman of New Africa Investments, the first black-controlled company listed on the Johannesburg bourse.

We are told the company "constitutes the successful meeting of minds between black endeavour and enlightened established economic interest". Asked which cap he's wearing here – political or business – he hesitates before replying, with a hearty guffaw, "Both." Lion tamers might hope for a less equivocal answer.

Beyond our Ken

■ As Britain fêtes Nelson Mandela, Ken Livingstone, former leader of the now defunct Greater London Council, might be permitted a wry smile about the fuss 11 years ago when an eight-foot bronze of the former Robben Island inmate was erected outside London's Royal Festival Hall. Typical GLC extravagance, sections of the establishment harrumphed – what business hava they spending tax payers' money celebrating such a life? Livingstone must be laughing like the newts he famously collects.

The Financial Times

100 years ago

The United States Election
The Democratic Convention was a scene of great excitement and disorder after four hours devoted to speeches and the nomination of candidates. The demonstrations over the names of Bland, Boles and Bryan rivalled one another in intensity and fervour. A young woman dressed in white led the demonstration in favour of Mr Boles from a front seat in the gallery, where she waved a banner. She was conducted by excited delegates to the platform, and thence was almost carried to the Iowa delegation, waving her banner until almost exhausted. At the fifth ballot Mr Bryan obtained the requisite number of votes, and was accordingly nominated as the Democratic candidate for the presidency.

50 years ago

China To-day
Life in Shanghai is vastly different from the old days. Shortly after the defeat of the Japanese, Shanghai was a cheap place to stay in. At the same time Kunming was the most expensive place in China. Kunming is now about he cheapest place in China and Shanghai probably the most expensive in the world. The cost of living is 4,000 times that in 1936, but the number of Chinese dollars to the pound is only 500 times greater.

FINANCIAL TIMES
Thursday July 11 1996

Officials braced for fresh upsurge in violence

Leaders in urgent moves to resolve Ulster crisis

By John Murray Brown in Belfast and John Kampfner in London

Politicians and church leaders made desperate moves last night to resolve the growing crisis between Protestant marchers and police that has brought Northern Ireland close to paralysis.

Business leaders and security officials were preparing for increased violence as the Orange Order's annual marching season reaches its peak tonight.

Four successive nights of mayhem have led to several towns blockaded, Roman Catholic families hounded out of their homes and pitched battles between demonstrators and riot police.

Orangemen brought a mechanical digger to the front line in the village of Drumcree yesterday, where police put up stone and razor wire barriers to prevent them from completing their annual march past a mainly Catholic estate.

On Tuesday night some 7,000 Orangemen, members of the province's largest Protestant pressure group, converged on the site to assert their rights against what they see as a conspiracy by London and Dublin to accommodate Irish nationalists.

Sir Patrick Mayhew, Northern Ireland secretary, described the situation as "very dangerous". He added: "Everyone has seen a resurgence of the violence which all of us thought had been left behind us 22 years ago."

Sir Patrick welcomed talks in Armagh between Mr David Trimble, the Ulster Unionist leader, and the heads of the four main churches in Northern Ireland.

Mr Trimble described his 80-minute meeting with Church of Ireland leader Archbishop Robin Eames and Cahal Daly, the Roman Catholic cardinal, as "very worthwhile". But he played down expectations of a breakthrough. Cardinal Daly said: "The potential is catastrophic. One couldn't exaggerate the seriousness of the situation."

A four-man delegation from the Northern Ireland Office also met with the Garvaghy Road residents' association – the Catholic neighbourhood at the centre of the dispute – in a search for compromise.

The Royal Ulster Constabulary said the total number of attacks on police stood at 452 with 49 officers and 37 civilians injured.

One of those caught up in the violence was Mr Seamus Mallon, deputy leader of the moderate nationalist SDLP and MP for Newry and Armagh. He was taken by helicopter from his home in the town of Markethill as loyalists sought to prevent him from travelling to Stormont to attend the faltering multi-party talks.

In a statement last night, the banned Ulster Volunteer Force, one of the main loyalist paramilitaries, denied involvement in the killing of a Catholic taxi driver, Mr Michael McGoldrick. The UVF insisted its ceasefire was intact.

Extra troops have been despatched to help relieve the overstretched RUC, taking the total number of forces in Ulster to about 18,500 – the biggest deployment in the province for 16 years. The Irish army said 100 extra troops were being stationed along the border in counties Louth and Monaghan in response to the growing tension in the north.

Protestants under peace spotlight, Page 7

Hashimoto threatens to snub Yeltsin in war row

By Gerard Baker in Tokyo

Mr Ryutaro Hashimoto, Japan's prime minister, yesterday threatened Mr Boris Yeltsin, the recently re-elected Russian president, with a diplomatic snub, evoking bitter memories of unfinished hostilities between the two countries in the second world war.

Mr Hashimoto said he would not attend Mr Yeltsin's inauguration if it was held on August 9, the 51st anniversary of the Soviet Union's invasion of Japanese-held Asian territory.

Mr Hashimoto said: "Can you imagine my going there on the anniversary of their breaking the Japan-Soviet non-aggression treaty and carrying out the attack on Japan?

"Don't you care? I care. Can I go there for a celebration with nothing on my mind?"

On August 9 1945, three days after the dropping of the first atomic bomb on Hiroshima, the Soviet Union abrogated its treaty with Japan and invaded Japanese-held territories in China and throughout east Asia.

As the Japanese army disintegrated, the Russians seized several small islands off the northern coast of the Japanese mainland.

Japan has demanded their return. The dispute means no formal agreement ending the second world war has been signed between the two countries, which are still formally at war.

The issue still rankles with many old guard politicians in the Liberal Democratic party, the largest member of the ruling coalition, Mr Seiroku Kajiyama, chief cabinet secretary, said: "On August 9 [1945] I was serving in the military in the former Manchuria. I remember the Soviet military unlawfully entered the war and brought suffering on Japanese residents there."

He did not address the question of what the Japanese were doing in northern China in the first place, Japanese forces had spent the previous 10 years or more occupying Manchuria and most of east Asia and the western Pacific.

The question of the "Northern Territories", as Japan calls the four islands still occupied by the Russians, has long been an impediment to diplomatic relations between the two countries.

At their summit meeting in Moscow in April, Mr Yeltsin and Mr Hashimoto repeated their commitment to try to resolve the dispute. But a decision to hold the Russian president's inauguration on August 9 would now be seen in Japan as a calculated rebuff to that process.

Mr Hashimoto may be acting prematurely, however. Russian officials have stressed that no final date for the ceremony has been set. Nor is it clear whether Mr Hashimoto will be invited when it is.

THE LEX COLUMN

Bavarian bankfest

Deutsche Bank's decision to take a 5 per cent stake in Bayerische Vereinsbank signals its belief that rationalisation of the German banking market is finally on the way. By spending DM500m on a stake in its smaller rival, Deutsche has bought itself a seat at the negotiating table.

German banking is crying out for consolidation. The top five commercial banks, Deutsche, Dresdner, Commerzbank and the two Bavarians, Vereinsbank and Hypo-Bank, control 30 per cent of the market. In the UK, the top five have over 60 per cent and in France, Switzerland and the Netherlands the figure rises to nearly 80 per cent. Most German bankers feel under pressure to remedy this before international competitors start sniffing around some of the more attractive potential targets.

Against this background, Vereinsbank looks a tasty morsel. Along with Hypo-Bank it is strong in residential mortgages, a profitable, low-risk business. It also has a great deal of Munich property tucked away in its books at prewar prices. But perhaps its greatest attraction is the lack of a dominant shareholder – unlike Hypo-Bank or Dresdner, where insurance giant Allianz owns over 20 per cent in each case. That explains why Deutsche was able to scoop up 5 per cent with little apparent trouble.

Deutsche may not bid for Vereinsbank, at least not yet, but it will certainly try to lift its stake to a more strategic 10 per cent. After all, what Deutsche fears most is a merger between smaller rivals, say Commerzbank and Vereinsbank, which would endanger its own market leadership.

FT-SE Eurotrack 200: 1732.4 (+0.3)

Source: FT Extel

Mobile communications

Once again, Motorola has disappointed the stock market with poor earnings; again, the US manufacturer has dragged down the share prices of its main mobile communications rivals, Sweden's Ericsson and Finland's Nokia. Six months ago, vicious competition in "analogue" handsets was the problem. This time, Motorola has pointed the finger at mounting price pressure in "digital" handsets, a newer technology which had enjoyed higher margins. Falling prices are hardly surprising as consumer electronics manufacturers, such as Samsung and Philips, have been tempted into the market by fat margins.

The shares of the big three mobile manufacturers have underperformed the US market over the past year, but not to the same extent. Nokia has underperformed by 50 per cent, Motorola by 30 per cent but Ericsson only by about 15 per cent. That may look unfair, but is an almost exact reflection of how dependent each is on mobile handsets; they account for 42 per cent of Nokia's sales, 27 per cent of Motorola's but only 14 per cent of Ericsson's. The main reason Ericsson's shares have held up so well is that it is especially strong in providing mobile communications infrastructure – switches, base stations and the like. So far, competitive pressures in this part of the market have been relatively muted, as this type of kit cannot be assembled from off-the-shelf components. But, with Siemens, Alcatel and Lucent (AT&T's spun-off manufacturing arm) stepping up their efforts in infrastructure, it is only a matter of time before margins come under pressure here too.

British Airways

What would be the financial impact of a pilots' strike at British Airways? Certainly the union's claim that a strike would cost the company £40m a day looks overblown. At this time of year, BA's income from airline passengers is around £24m a day. In practice, the revenue loss would probably work out a little less than that – say £22m – since the company has some non-unionised pilots, and some journeys could be rescheduled. Moreover, there would be cost savings as well. If the aircraft do not fly, the company does not have to buy fuel; it does not have to pay landing and air-traffic control charges; it does not have to pay striking pilots. Assume that 30 per cent of costs can be saved during a strike and the company's daily net loss falls to around £16m. Knock off tax, and the damage to shareholders from each day's strike works out at around £12m – or 1¼p a share. Still, this is quite enough to give the company a powerful incentive to avoid a strike. After all, a two-week strike at £16m a day would cost the company roughly as much as the pilots' total annual wages bill. Worse, a sustained strike would inflict serious harm – over and above the direct cost – to the quality of its brand. BA is already being damaged as passengers switch elsewhere.

Of course the company cannot afford just to buy the pilots off. Apart from anything else, it would be asking for trouble from its other unions. But those hoping that this dispute will result in a crackdown on the power of pilots are ignoring the powerful financial pressures pointing to an artful last-minute fudge.

UK pubs

Assuming common sense prevails – admittedly a risky proposition whenever UK brewing policy is concerned – Inntrepreneur will be able to extricate itself from its regulatory shackles. Commitments not to manage more than 20 pubs or determine which beer they sell may have made sense when Inntrepreneur was originally formed by Foster's and Grand Metropolitan. Since Foster's then owned the brewer Courage, concern that Inntrepreneur's customers would be able to buy only Courage beer may just have been valid. But now that Courage has been sold, there is no reason why Inntrepreneur should not manage as many pubs as it wishes and determine what beer they stock. It would scarcely be different from other big pub groups like Greenalls.

If the Office of Fair Trading accepts this argument, Inntrepreneur's owners will benefit. As the UK's largest pub owner, Inntrepreneur would command bigger discounts on beer supply contracts. Meanwhile, managing pubs is a more profitable business than simply leasing them to tenants. The net effect would be to boost Inntrepreneur's valuation if, as seems likely, it is floated. Instead of being rated on the basis of its assets, it could command a premium like managed pub businesses.

Implications for other pub operators are less positive, as there would be greater competition to buy up managed pubs. Meanwhile, Inntrepreneur's stronger bargaining power vis-a-vis brewers could squeeze their margins. Nonetheless, if the emergence of strong independent pub chains persuaded the Office of Fair Trading to allow further consolidation among brewers, the cloud would have a silver lining.

Lex comment on Dixons, Page 17

China picks European group as partner for airliner project

By Sophie Roell in Beijing

China has chosen a European consortium, Aero International Regional, as its western partner in a controversial project to build a 100-seat airliner.

Aviation Industries of China (Avic), which is responsible for overseeing the manufacture of civilian aircraft in China, announced yesterday that it had signed a memorandum of understanding with Aero International, jointly owned by Aérospatiale of France, British Aerospace and Italy's Alenia.

The aerospace division of Singapore Technologies, a leading government-owned corporation, will be the third partner in the project, whose development costs are estimated at $2bn. The share of each of the three partners in the venture has not yet been finalised, and industry sources say Daimler-Benz Aerospace (Dasa) of Germany may yet participate.

Last month, Samsung, the South Korean group, dropped out after a dispute over the location of the assembly line. This has opened the way for both Aero and Avic to boost their stakes above the levels originally envisaged.

The likely shares are: Avic (45 per cent), Aero (40 per cent) and Singapore Technologies (15 per cent).

Avic signed an agreement with Aero when Chinese premier Li Peng visited France in April. However, at the time China said it had not yet come to a final decision on partners and that Boeing of the US was still in the running.

China has also put pressure on Aero to include Dasa – which along with Aérospatiale and British Aerospace is a leading member of the Airbus consortium.

Industry sources say that once agreements are finalised, the 100-seater will take about five years to develop. Although the initial investment will be high, they say that production in China will boost the viability of the project thanks to low labour costs.

The eventual aim is to export most of the aircraft, to Asian regional carriers. "We hope to compete to a certain extent with Boeing," said one executive involved in the project. Boeing's 150-seater B737 now dominates the Chinese market.

However, the market for regional aircraft is highly competitive. Earlier this year, Fokker, the Dutch aircraft maker, collapsed after a long struggle to survive in the regional market with its F-100 and F-70 jets.

Asian competition is likely from Indonesia's state-owned IPTN, which wants to build an 80-130 seater jet, the N-1300. Also, Japan and Boeing have been discussing building a 100-seater, codenamed YSX.

Banks urged to overhaul data for Emu

Continued from Page 1

changes would require costly modifications to computer systems, on top of the other big costs related to Emu.

The EMI warned that urgent action was essential, since it would take up to two and half years to implement the new system. Mr Alexandre Lamfalussy, the EMI president said: "The work of implementing the changes must start now."

Some bankers fear it is already too late to provide good money supply data by early 1999. This would be embarrassing for the Bundesbank, which is demanding that money supply figures – rather than inflation targets – be used to set monetary policy under Emu. The Bank of England says it will implement the changes from 1999 if the UK decides to enter Emu. But other banks fear this will be too late to create accurate statistics, given London's role as a financial centre.

"The Statistical Requirements for Monetary Union"; July 1996. European Monetary Institute.

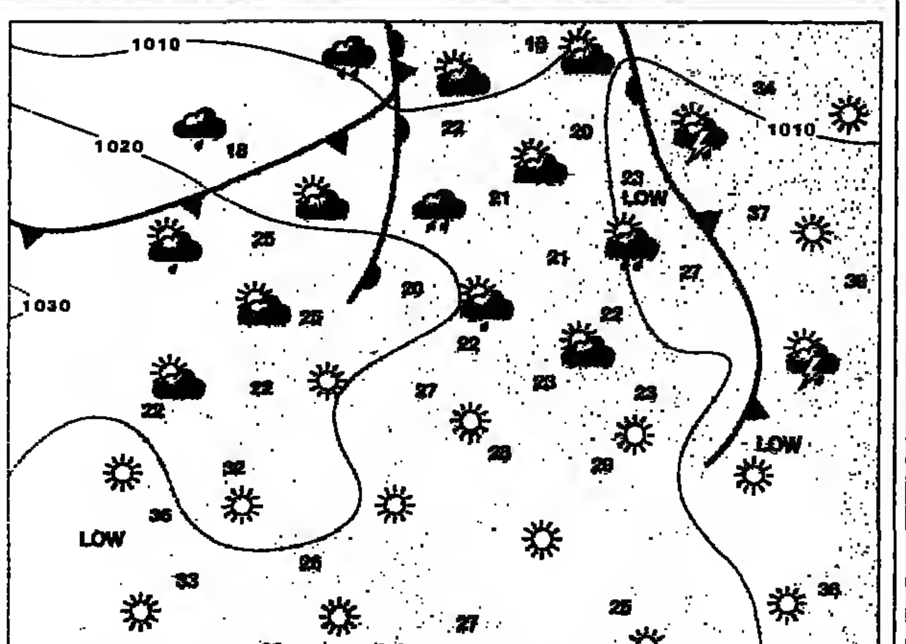
FT WEATHER GUIDE

Europe today

Warm and moist air will be drawn into western Europe. Most of England and the Benelux will have sunny spells. Most places will remain dry but Scotland and Ireland will have a period of rain or drizzle owing to a frontal system. Maximum temperatures will range from 15C to 19C in coastal and cloudy regions to 20C to 25C across the interior of the Benelux. Most of France and Italy will be warmer with sunny periods. Central Spain and Portugal will be hot and sunny. Central Europe and south-western Norway will continue rather cool with rain or showers. Southern Sweden and the Balkan states will remain dry with sunny periods. Cyprus and Turkey will be hot with plenty of sun. Belarus and the Ukraine will have some thunder showers and falling temperatures.

Five-day forecast

The central part of the continent will become settled with maximum temperatures rising to 25C or higher. Highest temperatures and the most sun will occur around the Mediterranean and across south-eastern Europe. The northern UK and southern Scandinavia will continue rather cool and unsettled with occasional rain or showers.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius							
Abu Dhabi	fair	40	Beijing	cloudy	25	Caracas	thund	32	
Accra	thund	29	Belfast	rain	19	Cardiff	cloudy	21	
Algiers	sun	26	Belgrade	fair	20	Casablanca	fair	27	
Amsterdam	fair	21	Berlin	rain	20	Chicago	fair	28	
Athens	sun	29	Bermuda	fair	27	Cologne	cloudy	21	
Atlanta	sun	33	Bogota	cloudy	19	Dakar	fair	30	
B. Aires	fair	14	Bombay	shower	32	Dallas	fair	34	
B.ham	fair	23	Brussels	fair	23	Delhi	fair	37	
Bangkok	thund	36	Budapest	fair	21	Dubai	sun	45	
Barcelona	fair	26	C.hagen	fair	22	Dublin	fair	20	
			Cairo	sun	36	Dubrovnik	sun	24	
			Cape Town	sun	21	Edinburgh	shower	20	

Faro	sun	29	Madrid	sun	33	Rangoon	shower	34
Frankfurt	fair	22	Majorca	sun	26	Reykjavik	shower	13
Geneva	fair	24	Malta	sun	26	Rio	shower	24
Gibraltar	sun	25	Manchester	fair	21	Rome	sun	28
Glasgow	rain	18	Manila	shower	33	S. Frsco	sun	23
Hamburg	drzzl	20	Melbourne	rain	12	Seoul	rain	28
Helsinki	rain	18	Mexico City	cloudy	22	Singapore	thund	28
Hong Kong	shower	29	Miami	shower	33	Stockholm	fair	22
Honolulu	fair	32	Milan	fair	26	Strasbourg	cloudy	22
Istanbul	fair	26	Montreal	fair	25	Sydney	fair	18
Jakarta	shower	32	Moscow	sun	33	Tangier	sun	27
Jersey	hazy	17	Munich	rain	21	Tel Aviv	sun	32
Karachi	fair	37	Nairobi	shower	24	Tokyo	fair	28
Kuwait	sun	45	Naples	sun	27	Toronto	sun	25
L. Angeles	fair	23	Nassau	shower	32	Vancouver	sun	23
Las Palmas	fair	28	New York	sun	28	Venice	fair	23
Lima	cloudy	18	Nice	sun	28	Vienna	cloudy	21
Lisbon	sun	34	Nicosia	sun	36	Warsaw	cloudy	18
London	hazy	26	Oslo	fair	23	Washington	sun	30
Lux.bourg	cloudy	21	Paris	fair	26	Wellington	rain	10
Lyon	fair	25	Perth	fair	18	Winnipeg	rain	25
Madeira	sun	26	Prague	cloudy	19	Zurich	cloudy	19

هكذا من الأصل

FINANCIAL TIMES
COMPANIES & MARKETS
©THE FINANCIAL TIMES LIMITED 1996 Thursday July 11 1996

IN BRIEF

Mannesmann wins stake in DBKom

Mannesmann, the German industrial conglomerate, emerged as the winner of 49.8 per cent stake in DBKom, the telecoms network of Germany's railway system, making it the strongest potential competitor to Deutsche Telekom, the state-owned operator, when the German telecoms market is liberalised in 1998. Shares in Mannesmann rose DM13.70 to close at DM549.20. Page 14

French and Belgian lenders to combine
Crédit Local de France and Crédit Communal de Belgique, two of the world's most important lenders to local authorities, approved the creation of a joint Franco-Belgian group with combined assets of FFr1,000bn ($194bn). The move is designed to help them respond to intensifying competition in the European banking sector. Page 14

P&G launches $1bn buy-back
Procter & Gamble, the US consumer goods company, launched a $1bn share buy-back and announced a 12½ per cent dividend increase as part of an effort to reassure investors about the overall health of the business. Page 16

Gencor lifts Alusaf holding to 73%
Gencor, the South African mining and metals group, has bought a further 32 per cent stake in Alusaf, the country's primary aluminium producer, from the state-owned Industrial Development Corporation in a deal worth almost R2.2bn ($507m). The move lifts Gencor's stake to 73 per cent. Page 16

Dixons' rise shows confidence returning
Dixons, the UK's biggest electrical retailer, provided fresh evidence of rising consumer confidence as it reported a 35 per cent jump in underlying profits to £135.2m ($211m) in the year to April 27 and a strong start to the current year. The shares rose 14½p to 530p as analysts upgraded their forecasts. Page 17

Laporte nears end of sell-off plans

Laporte, the UK's fourth largest chemicals company, completed the bulk of its divestment programme, raising £22.5m ($35.6m) by disposing of non-core businesses and saying it would invest £19m in its electronics division. The sales follow Laporte's divestment of most of its Australasian businesses in June. Mr Jim Leng (left), chief executive, said Laporte planned in sell further companies representing "a bit more" than £10m in turnover. Page 17

Rate rise extends Nikkei's losing streak
Japan's Nikkei 225 index fell for the fifth consecutive day as worries over a rise in interest rates prompted a sell-off by financial institutions. Page 30

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Asko	1161	+	60
Badenwerk	560	+	13
Kaufhof	580	+	19
Falls			
GEHE	1010	-	24.50
Hochtief	660	-	19
VEW	505	-	10
NEW YORK ($)			
Rises			
Flores & Rucks	36⅝	+	1¼
HCC Ins	25⅛	+	1⅝
Weatherford	32⅝	+	1⅞
Falls			
Excel Comm	20⅞	-	2¼
Motorola	57⅛	-	6⅝
Tech-Sym	25⅝	-	3⅝
LONDON (Pence)			
Rises			
Emerix	60	+	5
Proteus	72	+	7
Reliac	135	+	37
VHE	99	+	19
Falls			
BTG	1810	-	85
Domino Print	360	-	30
TORONTO (C$)			
Rises			
Arequipa Res	21.10	+	0.90
Nambian Miner	8.00	+	1.20
Prime Res	10.70	+	0.70
Falls			
Aexax	14.00	-	1.00
Biochem Pharm	43.05	-	2.95
PC Docs Grp	21.00	-	2.00
PARIS (FFr)			
Rises			
Essilor	1430	+	15
l'Oréal	1614	+	23
Pathe	1240	+	25
Skis Rossignol	2070	+	38
Falls			
Fromageries	4629	-	31
Havas Ad	585	-	15
TOKYO (Yen)			
Rises			
Japan Metals	561	+	13
Snow Brd Milk	736	+	16
Toda Corp	1030	+	20
Falls			
Konica	806	-	22
Kubota	688	-	14
Nippon Shinpan	758	-	17
HONG KONG (HK$)			
Rises			
HK Ferry	10.05	+	0.80
Gold Peak Inds	5.00	+	0.225
YGM Trading	10.20	+	0.45
Falls			
Goldlion Hld	6.65	-	0.25
Sincere Hld	3.45	-	0.25
Yip's H C	0.87	-	0.14
BANGKOK (Baht)			
Rises			
BKK Dusit Med	39.50	+	2.75
General Eng	42.00	+	3.00
Natural Park	56.50	+	3.00
Falls			
Lee Feedmill	46.00	-	2.00
STA Group	29.00	-	3.00
Thai Rubber	24.50	-	1.75

New York & Toronto prices at 12.30.

Hoechst may spin off HMR unit

German chemical group considers demerger of pharmaceutical division to lift shareholder value

By Wolfgang Münchau in Frankfurt

Hoechst, the German chemical giant, announced yesterday that it was considering spinning off Hoechst Marion Roussel (HMR), its pharmaceutical division, into a separate company.

The move is intended to lift shareholder valua, and reflects the increasing readiness of German managers to implement radical change. The demerger of the division would represent one of the most significant corporate restructurings in German industry.

Hoechst shares rose 2 per cent to close at DM52.52 in Frankfurt.

Hoechst confirmed long-standing speculation that Mr Jürgen Dormann, chairman, would "probably" propose at the next annual general meeting in April 1997 that HMR be turned into a separate legal entity.

A legal spin-off in Germany usually serves as a precursor to a bourse listing, although Hoechst would not comment on a possible flotation plan.

Hoechst proceeded in similar fashion when it separated out SGL Carbon, the carbon and graphite company, which Hoechst partially floated before selling off the remaining stake. SGL Carbon is now of the most profitable quoted companies in Germany.

Hoechst is the world's largest chemical group and HMR is one of the top five pharmaceutical companies.

HMR was created after last year's acquisition of Marion Marrell Dow, the US drugs group, which Hoechst bought for $7.1bn.

The integration of HMR into Hoechst appears to have run better than expected. HMR expects to break even in 1997, rather than the 1998 previously expected. The financial strain of the acquisition is also proving less onerous than had been feared.

The demerger plan is part of an international trend towards the separation of chemical and pharma businesses. The best know example is the decision by Novartis, the company created by tha $60bn merger between Sandoz and Ciba of Switzerland, to hive off its chemicals business.

Hoechst denied speculation that it was planning to float off 15 per cent of HMR as a "misunderstanding".

Hoechst said that no final decision about the future of HMR had been taken and that Mr Dormann had merely expressed a "probable outcome" in respect the legal status of HMR.

In an interview in today's edition of Die Zeit, the German weekly newspaper, Mr Dormann said: "I want in pre-empt market development with this decision."

He said he was aiming to turn Hoechst into a management holding company. Such a structure would be similar to that of Daimler-Benz, the transportation group.

Earlier this year, Mr Dormann said he was considering a spin-off of the pharma activities. Hoechst, however, later denied the plans.

Hoechst in May reported a slow start to its financial year but forecast an improvement in business for tha remaining three quarters. First-quarter sales were DM13bn ($.7bn), unchanged from 1995.

Telekom Malaysia to equip multimedia complex

By James Kynge in Kuala Lumpur

Telekom Malaysia, the former state monopoly, is planning to invest M$5bn (US$2bn) over eight to 10 years to lay the infrastructure for a "multimedia super corridor" to accommodate high-technology companies.

The corridor, 15km wide and 40km long, is to link Kuala Lumpur's city centre, a new international airport and an administrative capital, Putrajaya, which is under construction. The government hopes the area will attract information processors, software groups, Internet operators, microchip designers and other high-technology groups.

Mr Mohamed Said Mohamed Ali, Malaysia Telekom's chief executive, said most financing for the investment would be raised internally. The funds are to be spent on laying telecoms lines – probably fibre optic – interconnection equipment, software applications and labour. It was not clear when the investments would begin as no launch date had been set for the corridor.

Telekom has been appointed sole provider of "backbone" telecoms in the corridor. That means its five leading competitors will be limited to providing value-added services, for which they would have to pay Telekom an access fee. Analysts said the concession could be lucrative in the long term.

Dr Mahathir Mohamed, the prime minister, has been promoting the corridor, addressing Japanese and US business leaders.

The government has not said how many investors have expressed interest in the corridor. But the size of the projects to which it will be linked should ensure strong domestic telecoms demand. The new capital, into which some government departments are due to move in 1998, is to cost M$20bn. The airport, being built at a cost of M$9bn, is also set in open within two years. Up to M$5bn of the funds being spent on Putrajaya are destined for information technology equipment, officials say.

Mr Mohamed Azzman Shariffadeen, director-general of the Malaysian Institute of Microelectronic Systems, envisages the corridor as an ultra-modern world in which people can fill out forms, go shopping and possibly even vote online. Ticketless air travel and smart cards in lieu of passports are other ideas.

FT writers assess the impact of Swiss financier's move for French cocoa processor

Chocolate users fear European supply duopoly

A duopoly in European chocolate supply is feared by many groups who do not make their own. The squeeze could affect even large companies anch as Danone, Europe's largest biscuit baker, which buys in almost all its chocolate.

Chocolate users this week heard that Mr Klaus Jacobs, the Swiss financier, had snapped up Groupe Barry of France for about FFr2bn ($388m), roughly doubling his share of the independent chocolate market in Europe to 50-55 per cent.

Next to fall, they believe, will be Grace Cocoa, a subsidiary of the US chemical company. "It was a play thing of Peter Grace," a competing chocolate maker said yesterday. But since Mr Grace, the group's long-serving chairman, died in April speculation of an imminent sale has run through the market.

The US group confirmed yesterday it was "evaluating all options" on Grace Cocoa but said it hoped to divest it by tha year end.

Grace has about 25 per cent per cent of the European market. The only other maker of any size is Cargill, the US agribusiness, with a similar share and seen as a likely bidder for Grace.

So far, European competition authorities have failed in respond publicly to the consolidation of the industry. "Jacobs' lawyers seem very confident about Barry," a senior executive of a leading European confectionery group said yesterday.

He believes thay will argue that Mr Jacobs' market share falls to abont 32 per cent if cocoa butter, fat and liquor are added. These are products, refined from cocoa beans, which are used in chocolate making.

Most of the largest chocolate users such as Cadbury Schweppes, Nestlé, United Biscuits and Mars make their own chocolate. Sometimes soma might buy ingredients or finished chocolate from middle men such as Callebaut of Belgium, Mr Jacobs' main chocolate company, or Groupe Barry his new acquisition. But there is also a trend for some users to get out of chocolate making.

"Processing beans is messy," said one refiner. "Some people want a tanker of food-grade chocolate to arrive at their door."

Danone is believed to consume about 10 per cent of the independent European supply of covering chocolate, a market of about 600,000 tonnes a year, according to one chocolate maker.

"Does this consolidation improve my competitive position?" asked one self-sufficient chocolate user yesterday. "It's hard to say."

On one hand, a merged Barry and Callebaut will restore thin chocolate margins for the combined unit and put pressure on those who buy in chocolate. Yet, given the strong position of leading self-sufficient users such as Nestlé, which makes Kit Kat, and Mars, retail confectionery prices will not rise.

On the other hand, the barriers to entry are low. Chocolate users could revert in making their own again. But smaller users would still be excluded. "A lot of small companies can't afford in do their own research and manufacture," a large maker said.

These issues might not be raised with competition authorities in Brussels and national capitals. The same industry associations that represent chocolate users such as ice cream makers and confectioners also represent makers such as Callebaut and Grace Cocoa. Association executives in two national bodies said yesterday they could not comment because of the composition of their membership.

Mr Jacobs' grip on the industry has tightened in other ways. Groupa Barry takes him upstream into cocoa bean processing and links with farmers in the Ivory Coast, the world's largest cocoa producing nation, at a time of tightening supplies.

So far, Mr Jacobs has had largely cordial relations with chocolate users. They troop to Callebaut's "chocolata university" in Belgium to learn more about the prodnct and Callebaut's technical services.

But recent events suggest relationships could become stickier.

Roderick Oram

Jacobs sweetens investor sentiment

Mr Klaus Jacobs, 59, is supposed in be in the middle of a one-year sabbatical away from his business. However, judging by the pace of his deal making over tha past couple of months he may well have in ask for an extension of his sabbatical into next year.

In May, he announced he was merging the biggest company in his empire, the Adia employment agency, with his biggest European competitor, Ecco of France, creating the biggest company of its kind in the world.

Now he is bidding in establish himself as a global leader in a completely different field with the purchase of France's Groupe Barry.

Although the Swiss press has welcomed his latest move by christening him the new *Schoggiriese*, (chocolate giant), the bulk of Klaus Jacobs family fortune raised from the sale of Jacobs Suchard to Philip Morris in 1990 for SFr3.1bn ($2.4bn) is now invested in the Adia temporary employment business.

It is Jacobs's auccess with Adia, culminating in the effective takeover of Ecco, which will probably sway investor sentiment towards tha forthcoming initial public offering of his new chocolate business. Swiss investors have not had a very high regard for Mr Jacobs until now. The fact that he started off as a German (he is now a Swiss citizen), meant that he was never part of the Zurich business establishment and minority shareholders in Jacobs Suchard did not do as well as the Jacobs family in the sale of the business in Philip Morris.

When Mr Jacobs picked up Adia from the remnants of the the financial empire of Werner Rey, the fugitive Swiss financier, Swiss investors largely ignored tha deal. Jacobs appeared to have paid a high price, the business was doing badly, and memories of Jacobs Suchard discouraged investors from becoming minority shareholders in another Klaus Jacobs company.

However, there is nothing like a rising share price to change investor sentiment. Adia's debt burden has heen alashed, tha business has been reorganised and Adia shares which had been trading well below SFr200 have been trading above SFr300 in recent weeks.

Mr Jacobs appears to have won his place back in tha good books of the Swiss investment community, for the moment at least.

William Hall

Shell and Exxon to pool petroleum additives arms

By Robert Corzine in London

Shell and Exxon, the western world's largest oil companies, are to pool their petroleum additives businesses in a move that will give the combined unit a quarter of the $8bn a year international market.

The proposed 50-50 venture will be formed through the combination of Exxon Chemical's Paramins division and Shell's combined petroleum additives businesses. The new unit will operate worldwide.

The companies say the joint venture is a response to growing competition in downstream markets. It follows the decision earlier this year by British Petroleum and Mobil of the US to merge their European refining, marketing and retail operations.

Shell's share price rose sharply yesterday morning amid speculation that the announcemant would concern more radical plans for Shell's chemicals operations or its downstream division.

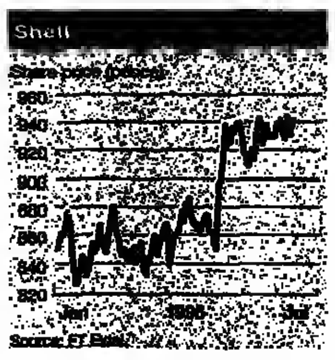
Although the proposed Shell/Exxon deal is geographically broader than the BP/Mobil tie-up, it is confined to a single product range. The companies, however, expect "significant enhancements and efficiencies" in research and development as well as in manufacturing, marketing and distribution.

Petroleum additives are used to improve the performance of fuels and lubricants, and include specialty products for use in industrial and gear oils and automatic transmission fluids. They are mainly bought by oil companies and independent lubricant producers.

The combined revenues of the two businesses last year was $1.5bn, out of a worldwide market of $6bn. The scope of the proposed joint venture means that it will need in be approved by competition authorities in the US and the European Union.

Some jobs would be lost but the "majority" of the 1,600 Exxon employees and 400 Shell workers employed by the two units would be absorbed in the joint venture, the companies said.

Shell



Source: FT Extel

Shell and Exxon have co-operated on various activities. Their biggest venture is in oil and natural gas exploration and production in the North Sea, but they shara some downstream operations, such as oil product distribution terminals in various countries.

Of the seven petroleum additive technology centres operated by the two companies, two are in the UK.

Shell said it was too early in say whether ona of the sites would be closed.

CLF and CCB to become joint operation

By Andrew Jack in Paris

Crédit Local de France and Crédit Communal de Belgique, two of the world's most important lenders to local authorities, yesterday approved the creation of a joint Franco-Belgian group with combined assets of FFr1,000bn ($194bn). The move is designed to help them respond to intensifying competition in the European banking sector.

Under the proposal, CCB, which is owned by its 600 Belgian local authority clients, will float 30 per cent of its capital on the domestic stock market, and the two groups will acquire a 50 per cent stake in each other and be run by a joint management team.

Shareholders still have to approve the accord at extraordinary general meetings in October before formal implementation by the end of the year, but senior executives in the two banks have already agreed to obtain mutual approval before all significant future decisions.

Mr Pierre Richard, chairman of CLF, described the structure as an economic merger, although in the short-term the groups remain legally distinct, with two new holding companies created to own the cross-shareholdings in each of the two operational banks.

He stressed that the proposal marked a "marriage of equals", which would be governed by a common set of executives and two chairmen – himself and Mr François Narmon, head of CCB. There would also be a significant number of non-executive directors.

He said that by removing tha barrier of foreign exchange risks, the development of the single European currency would lead to more concentration within the EU and expand the lending activities of banks. "The first companies to anticipate this movement will have a definite advantage."

The action comes at a time of growing pressure on banks in both France and Belgium, where there have been heated debates over the past few months abont the need for mergers or international alliances in order to survive.

Mr Richard said the alliance would increase the two banks' "financial clout" – improving fundraising powers, scope for joint acquisitions and solvency ratios.

However, he stressed there was little duplication between the two institutions, so they would be able to achieve economies of scale without the need for job losses.

To compensate for its larger size, CLF will pay an extraordinary dividend to shareholders of FFr626m before tha merger. The structure is being set up to ensure that French and Belgian investors in the respective bolding companies receive approximately the same dividend payments despite significant differences in tax regimes between the two countries.

CCB has been associated with CLF since 1990.

Marianne and Jeff claim marriage of lending equals

The specialist bank Crédit Local de France has long been courted in a manner appropriate to its corporate logo – an image of the youthful maiden Marianne who serves as the historic symbol of Republican France.

It took five years of gentle wooing and apparently dashed hopes before yesterday's detailed announcement of a proposed merger with its counterpart Crédit Communal de Belgique, which has as its logo – dubbed Jeff – the helmeted head of a "communier", or medieval watchman.

It was not a step taken lightly. For Mr Pierre Richard, chairman of Crédit Local de France, a forced marriage, a union of convenience or one undertaken without conviction just would not work. There had to be a real "communion".

Speaking in his Paris office yesterday, Mr Richard admitted he welcomed the advances of the Belgian bank. The two institutions had long worked together, since CCB took a 5 per cent stake in CLF when it was partially privatised in 1990.

He stressed he had always got on very well with his opposite number, Mr François Narmon, and found the Belgians easy to work with.

But it was more than mere social compatibility and personal qualities which explain the link-up between the two groups. CCB approached CLF at the end of last year, at a time of a growing debate in Belgium over the future of the country's banks as competition in the sector intensified across Europe.

Mr Richard highlights the importance of the single European currency, which he both advocates and believes will be implemented.

"The Euro will be a serious handicap for those who are not ready, but a force for change for those who are active," he says. "It is a stimulus for us."

He argues that there will be a strong competitive advantage for those groups which are among the first to anticipate the trends towards concentration in Europe and accordingly expand their lending activities across the continent.

Rather than tying up with other domestic institutions, CCB decided to turn to CLF, attracted by the ways in which the groups complemented each other. Both concentrate on lending to local authorities and public sector projects, and there is little overlap in the geographical regions they serve.

Pierre Richard: Euro offers big advantage for expanding lenders

Together, the two banks claim they will be among the largest 20 in Europe, with total assets of FFr1,000bn ($194m) and the largest lenders in their niche around the world. Mr Richard proudly claims the lack of duplication will result in no job losses – a factor which helps explain why his works council approved the merger on Tuesday.

He stresses instead the scope for growth – stressing that "France is not enough" and highlighting the prospect of expansion, first to complete its European network by developing a presence in Italy, and then to strengthen its role in North and South America and south east Asia.

Within the next four or five years, some senior executives believe there will be a single entity quoted in several markets which completely merges CLF and CCB.

In the short-term, the structure of the "alliance" is more tortuous.

In the absence of a Europe-an-wide legal statute for a cross-border entity, they have chosen for the moment at least to operate with one quoted holding company in each country, each with a 50 per cent stake in the two operational businesses, which will contain the existing activities of the two banks.

There will be identical boards for the two holding companies, and for the two operational businesses, with a common co-ordination committee and the two existing heads as joint chairman. "It is an equal marriage," stresses Mr Richard.

A question now for analysts is whether the pressures in European banking will give birth to other cross-border liaisons.

Andrew Jack

Mannesmann wins 49.8% holding in telecoms network

By Michael Lindemann in Bonn

Mannesmann, the German mobile phones to tanks conglomerate, yesterday emerged as the surprise winner of a 49.8 per cent stake in DBKom, the telecoms network of Germany's railway system. The deal makes it the strongest potential competitor to challenge Deutsche Telekom, the state-owned operator, when the German telecoms market is liberalised in 1998.

A final decision was made by the management board of Deutsche Bahn, the federal railway system, yesterday morning and was greeted with astonishment by executives in the German telecoms industry, including at Mannesmann itself.

Thyssen, the steel and engineering group which had been vying for the DBKom stake, said it was "surprised" by the decision and pointed out that its negotiations with Deutsche Bahn had progressed considerably further than those between DB and Mannesmann. "We were a good deal nearer a final agreement than our competitors," an executive said.

Other executives close to the talks said Thyssen had made more headway but that Mr Heinz Dürr, Deutsche Bahn chief executive, and Mr Joachim Funk, who heads Mannesmann, had talked frequently in recent days.

Shares in Mannesmann rose DM13.70 to close at DM549.20 while Thyssen's stock fell DM13.20 to close at DM284.30.

Executives at DB and Mannesmann refused to disclose the price paid for the 49.8 per cent stake in DBKom but analysts said that bids had been increased at the last minute.

DB said the price for the stake had been one of several criteria which the company had used to make its decision. Other deciding factors included what national and international telecoms connections a potential partner offered and the strength of existing telecoms activities.

Mannesmann had the upper hand, a DB spokeswoman said, because of its partnership with Unisource, the international five-way telecoms ventura which includes AT&T, the largest telecoms operator.

Mannesmann's chances were also improved because of its D2 mobile phone network, the only nation-wide digital mobile network alongside that operated by Deutsche Telekom.

"Given Mannesmann's existing activities, DBKom can make its entry into the market more quickly," DB said.

Mannesmann said DB's decision marked an "important step" towards a final agreement between the two companies. Bnt it stressed that "negotiations and contracts have not been completed".

NEWS DIGEST

First Austrian snubs Creditanstalt plan

Plans to privatise Creditanstalt, the Austrian bank, through a link-up with First Austrian Savings Bank collapsed yesterday when First Austrian's supervisory board rejected the merger model put forward by its consortium partners. First Austrian insisted it would put only 75 per cent of its shares into the planned holding group. Under this plan, the foundation that controls the bank would keep a 25 per cent minority stake in First Austrian and would also be the largest shareholder in the holding group.

First Austrian's consortium partners, however, demanded that the holding group included all shares of First Austrian and Creditanstalt. This would prevent the First Austrian foundation from having undue influence over the new banking group, which would be Austria's largest, and would allow a much closer co-operation between the two banks.

The consortium was set up two years ago to acquire a 70 per cent voting stake from the government. It is led by Generali, the Italian insurer, and also includes Commerzbank of Germany and Banca Commerciale of Italy. Banking experts say they expect First Austrian to pull out of the consortium, which would then have to prepare a new bid.

The government is hoping to net Sch15bn ($1.4bn) for its stake in the second largest bank, but has no other concrete offers at hand. The Creditanstalt privatisation has dragged on for more than five years and has become an embarrassment to the Austrian government. *Eric Frey, Vienna*

Skoda Pilsen slips into red

Skoda Pilsen, the Czech heavy engineering group, said yesterday it would post a pre-tax loss of Kč166m ($6m) for 1995 after its auditor advised setting asida substantial sums against unpaid receivables. The loss follows pre-tax profits of Kč450m in 1994. Skoda has agreed to a recommendation by its auditor, Ernst & Young, to set aside Kč442m for uncollected receivables, investments and inventories, and Kč108m for debt write-offs. It said the write-offs were an attempt to get to grips with "the unhappy heritage of the past". That heritage is thought to include up to Kč4bn it is owed by customers throughout the former eastern bloc which are unable to pay their debts.

Total sales in 1995 jumped 56 per cent to Kč27bn from Kč16bn a year earlier, and Skoda predicted they would reach Kč33bn this year. A far-flung conglomerate with interests ranging from turbines to locomotives and trucks, Skoda is viewed with caution by analysts and investors. It has attracted little investor interest because of wariness about the transparency of its accounts. *Vincent Boland, Prague*

Astra goes to EC over Losec

Astra, the Swedish pharmaceuticals group, has lodged a complaint with the European Commission against Portugal for approving 13 "pirate copies" of its blockbuster anti-ulcer agent Losec. Astra, for whom Losec is set to become the world's biggest-selling drug later this year, accuses Portugal's medical authorities of approving replicas of the drug based on alleged exact copies of Losec's own registration documentation.

Astra claimed Portugal's pharmacy and medicines institute, Infarmed, had violated domestic law and a European directive on drug registrations. The majority of the applications – largely by local pharmaceutical companies – were based on "falsified" versions of Astra's documents, it said. Some of the drugs in question did not correspond with registration documents, but Infarmed had so far declined to revoke any licences.

Astra, which has a 50 per cent market share in Portugal, estimates it is losing $12m a year to Losec imitations. It initiated court action in Lisbon two years ago, but now believes the EC can resolve the matter more speedily. *Greg McIver, Stockholm*

Viag to bid for MBT

Viag, the German industrial conglomerate, yesterday confirmed it was bidding for Master Builders Technology, the building chemicals company which Sandoz, the Swiss chemicals group, is selling as a result of its fusion with Ciba-Geigy. Press reports have suggested Viag would bid up to DM1.4bn ($919m) for MBT but Mr Georg Obermeier, chief executive, yesterday told Viag's annual meeting in Munich the price for MBT still had to be finalised. "Our idea of a price for this company has clear limits," Mr Obermeier said. "We cannot pay every price."

If successful, Viag would merge MBT's operations with its own chemicals subsidiary, SKW Trostberg, creating Europe's largest building chemicals group. *Michael Lindemann, Bonn*

Fokker awaits Yakovlev offer

Receivers at Fokker, the Dutch aircraft maker which collapsed in March, were yesterday cautiously awaiting a renewed approach from Yakovlev, the Russian aerospace group which was among a number of prospective purchasers in earlier talks to rescue the group. Mr Arkady Gurtovoi, Yakovlev vice-president, told Reuter in Moscow thet the company was preparing a Fl 370m ($207m) offer, which it would fund through western bank credits backed by the Russian government.

"We seriously intend to buy Fokker before the end of this year," he was quoted as saying, while adding that several bureaucratic hurdles had to be resolved. The deal would involve relocating components assembly conducted in Germany and Northern Ireland. The indicativa offer is pitched at the same level as one discussed in April, but the receivers had not replied to conditions they laid down at the time. Since then, Fokker's maintenance unit has been sold to Stork, a Dutch industrial group. *Gordon Cramb, Amsterdam*

■ Renault and PSA Peugeot Citroën, the two big French carmakers, yesterday unveiled a new V6 engine they have developed for mid-range and luxury car models. The engine, which required an industrial investment of FFr1.3bn ($252m) split equally between the two groups, will be produced by Française de Mécanique, their jointly controlled manufacturing company, at its plant in the Pas-de-Calais region. It will go on sale this autumn and could eventually be sold to other manufacturers. *David Owen, Paris*

■ Thyssen Stahl, the German steelmaker, has formed a joint venture with Italy's Stola Group through a new company, Euroweld of Turin, in which each will have a 50 per cent stake. The venture will produce pre-cut steel plates used in vehicle manufacturing. *Reuter, Duisberg*

■ Ferrovie dello Stato, the Italian state railway company, is interested in selling its 2.88 per cent stake in Istituto Bancario San Paolo di Torino but no decision has yet been taken, FS managing director Lorenzo Necci said. *Reuter, Milan*

Swiss power groups in telecoms venture

By William Hall in Zurich

Six of Switzerland's biggest regional electricity companies are setting up a telecoms company to challenge the dominance of Swiss Telecom after the Swiss telecommunications market is deregulated in 1998.

The venture – to be known as DIAX – will be jointly owned, and is seeking a big international telecoms company as a partner.

The Swiss telecoms market is worth about SFr10bn ($7.9bn) a year and is one of the most profitable.

Although Switzerland is not part of the European Union it has committed itself to following the EU timetable for the complete opening of all telecommunications services to competition and the elimination of network monopolies.

The Swiss electricity industry already has an extensive communications structure which is used primarily for operating power supply installations. Its fibre optic and microwave transmission networks will form the basic platform for DIAX, which plans to supply telephone services (including ISDN and Internet connections), mobile phones, data transfer and compnter networks.

The six companies involved are: Aare-Tessin Electricity, BKW FMB Energy, Centralschweizerische Kraftwerke, Elektrizitätsgesellschaft Laufenberg, L'Energie de L'Ouest-Suisse and Nordostschweizerische Kraftwerke. They are contributing an initial capital of SFr3m and are seeking other partners in the electricity industry to join the venture.

Purchases boost Gränges refocusing

By Greg McIvor in Stockholm

Grängss, tbe aluminium subsidiary of Electrolux, the Swedish white goods manufacturer, has acquired two aluminium companies in the UK and Belgium and is setting up a joint venture in China.

The moves reflect Gränges' drive to concentrate on core aluminium operations after the postponement of its planned stock market flotation last year. It said annual sales would rise SKr1.2bn ($952m), helping to offset the negative impact on turnover of lower metal prices this year.

The transactions inclnded the purchase of Bredon Group, a Cheltenham-based aluminium extrusion and systems company, and Phenix Aluminium, a foil maker near Liège. Details were not released.

Mr Lars Westerberg, Gränges chief executive, said further foreign investments were likaly as part of a strategy to make the unit "deeper but slimmer", with a clear focus on aluminium production.

The initiative is likely to appeal to investors, whose coolness to last year's flotation resulted partly from a perceived lack of focus in Gränges' operations.

Gränges, which sold a distribution division last December in the first stage of the refocusing drive, continues to be seen by Electrolux as a non-core asset. However, Mr Westerberg insisted yesterday's moves were unconnected to any eventual flotation, and the matter remained dormant.

Gränges said the acquisition of Bredon would double its share of the UK aluminium extrusions market to about 23 per cent, making it Europe's second-biggest producer after Norsk Hydro, the Norwegian group. The purchase of Phenix would make it number two in the European thin foil market.

The Chinese joint venture, to produce heat exchanger material for the automotive industry, envisages an initial investment of SKr175m. Gränges will take a 70 per cent stake and Shanghai Shenjia Aluminium Industry Company, its Chinese partner, the other 30 per cent.

Gränges said it would be the first in China to produce automotive heat exchanger materials; most of the country's requirements are met by Japanese imports.

It said the venture would be able "substantially" to undercut imported competition and would produce about 12,000 tonnes a year – equal to 30 per cent of the Chinese market.

Procter launches $1bn share buy-back

By Richard Tomkins in New York

Procter & Gamble, the US consumer goods company, yesterday launched a $1bn share buy-back and announced a 12.5 per cent dividend increase as part of an effort to reassure investors about the overall health of the business.

It warned that growth in earnings per share would slacken in its fiscal first quarter to September, mainly because of weakness in its healthcare business, but said it expected to make up for the sluggishness in the second half of its 1996-97 year.

Analysts surveyed by First Call, the research service, had been predicting earnings per share of $4.81 for fiscal 1996-97. In a conference call with analysts Ms Sara Mathew, assistant treasurer, said Procter & Gamble was "comfortable" with the range of estimates.

The company's shares fell $¾ to $87⅛ in early trading yesterday.

Although Procter & Gamble has made previous share repurchases to offset dilution caused by executive compensation schemes, its $1bn buy-back – expected to be completed in 1996-97 fiscal year – will be its first big repurchase programme.

Mr Clayt Daley, treasurer, said the company had previously used cash surpluses for acquisitions. But in 1995-96, acquisition activity was lower and the company was running a cash surplus of more than $1bn. With the increase in the annual dividend from $1.60 to $1.80 a share Mr Daley said the company would return between $2.7bn and $2.8bn to shareholders in 1996-97, demonstrating its commitment to delivering "superior" shareholder returns.

Explaining the slowdown in first-quarter earnings growth, Ms Mathew said 1996-97 would be "an investment year" for the healthcare business, and higher investment spending combined with lower volumes would particularly affect the first quarter figures.

Other factors affecting first-quarter earnings were currency effects – although hedging operations should make these neutral for the year – and the transitional effects of last year's decision to switch to value pricing in Europe.

Ms Mathew acknowledged that the switch to value pricing had been "painful", but said it had been essential to move to e more transparent business environment. The move had set the stage for continued profit improvement in Procter & Gamble's European operations, she said.

"Now we have turned the corner in the implementation process, we should benefit from this change in the current fiscal year – particularly in the second half," she said.

Dollar rise imperils foreign income of US business

By Richard Waters in New York

The recent rally in the US dollar is set to suppress earnings growth at many US-based multinationals for the second quarter of this year, according to Wall Street analysts and early indications from companies.

The translation impact from the dollar's rise – reducing the dollar value of sales and earnings which beve been gener*ated in other currencies* – will wipe "several [percentage] points" off second-quarter earnings and is set to continue into the third quarter, said Mr David Schulman, US equity strategist at Salomon Brothers.

The currency effect comes at a time when US corporate *earnings have already slowed* sharply. After more than three years of double-digit gains, US companies are expected to *report year-on-year earnings* per share growth of only about 7 per cent for the second three months of this year.

Among companies which reported second-quarter results yesterday, Abbott Laboratories, one of the US's biggest healthcare concerns, said that *the stronger dollar had wiped* more than 5 per cent off its international sales growth during the period. Despite this, the company's *international* sales still rose by nearly 7 per cent in the period, to $1.1bn, and its after-tax earnings advanced by 11 per cent to $470m, or 60 cents a share.

The rise in the currency may have contributed to a recent fall in stock prices in the technology sector, Mr Schulman said. Sectors with significant overseas sales such as pharmaceuticals and cars, will also be *affected, he added.*

The impact of the stronger dollar on the competitiveness of US industry is unlikely to be felt for some time. However, concerns have already begun to surface in some industries which are particularly vulnerable to international competi*tion,* in both foreign and domestic US markets.

Las Vegas puts its money on themed casinos

Rien ne va plus – the roulette croupier's famous cry before the big wheel stops and the little white ball picks its winners – are words unlikely to be heard for the foreseeable future in America's gaming halls.

Despite the recent flurry of takeover, joint venture and investment activity, the shuffling of chips goes on.

Hilton Hotels, which last month paid $2bn for Bally Entertainment, is now believed to be talking to Coast Resorts, owner of the Barbary Coast casino in Las Vegas. A deal would bring to four Hilton's tally of properties on the Nevada city's famous "Strip".

Aztar Corporation, best known for its established Tropicana hotels, and seemingly short of the funds needed to dress up its faded if well-positioned Las Vegas casino, is another likely candidate for a deal.

The Las Vegas Tropicana, in common with other "traditional" venues on the Strip, has found itself effectively surrounded by more recent themed casinos decked out in fantastical guises. On one side sits the black pyramid and mock-stone sphinx of the Luxor, the property of Circus Circus, which has just broken ground on a $240m expansion to add two more pyramids.

Across the way it is confronted by a brand-new property, the 3,000-room Monte Carlo "mega-resort" loosely and expensively modelled on the Monegasque city's Place du Casino.

Opening this December on the same block is New York – New York, which brings a mock-Manhattan skyline to the desert city, while the MGM Grand has budgeted $700m for a revamp of its lion-faced monument to moviedom – opened less than three years ago.

The attractions of the Tropicana's charming menagerie and its claim of having the longest-running show in the town – even if it goes under the name of Folies Bergère – fade almost daily in today's fevered environment.

Further down the Strip, Bally starts work next month on a $500m "Parisian" resort which will boast a front door replicating the Arc de Triomphe, and a 55-storey copy of the Eiffel Tower for anyone who misses the point.

The "theming" of Las Vegas has been under way for years as the city's counter to competition from other states which have liberalised their gaming laws. The process has also been driven by a desire to widen and rejuvenate a customer base dominated by 45-year-old blue collar players.

Success has more than doubled the number of Nevada's visitors in the past decade to almost 30m a year. The Las Vegas Strip alone, which has added 20,000 hotel rooms in the past six years, now accounts for almost 10 per cent of the national gambling take of $40bn.

The process has accelerated lately with decisive expansion by rich, respectable, internationally-known corporations such as Hilton and ITT into territory once deemed tainted by mobster connections.

ITT, which last month unveiled plans to spend $2.5bn on building new casinos and refurbishing its Caesar's World properties in Las Vegas and its east coast counterpart, Atlantic City, struck a deal days later with Planet Hollywood.

The theme restaurant success of the 1990s – featuring screen memorabilia and food to please the younger crowd – will be decked out in green baize and relaunched in a chain of casinos with a start-up investment of $1.3bn.

Chip of the desert: the Luxor is adding two more pyramids to its casino and hotel in Las Vegas

The scheme mimics and dwarfs the year-old Hard Rock casino-hotel majority-owned by Mr Peter Morton, who last month surrendered full control of the international Hard Rock Cafe chain to Britain's Rank Organisation.

ITT will pay for the building of the Planet Hollywood properties and will take an 80 per cent stake in the joint venture in return. As in the case of the group's earlier announcement, Las Vegas will get the lion's share of the investment.

This clustering of casinos with different themes is an important tactic on the Strip, where visitors typically wander up and down dipping in and out of the various attractions until they settle on one where they feel lucky.

Circus Circus, for example, which is exploring yet another avenue to new markets with a deal to open "luxury" gaming halls in concert with the up-market Four Seasons Regent hotel chain, owns a mile-long section of Strip properties.

Its "Masterplan Mile" strategy, formally announced last autumn, is designed to capture a substantial chunk of the residential and passing trade within a closely-packed network of half a dozen casinos linked by a monorail and moving walkways. By the end of the decade the company aims to double its room tally in Las Vegas to 20,000 – a figure which implies an increase of more than 10 per cent in the entire Strip's room capacity from a single group.

Such extraordinary ambitions are becoming almost commonplace in the overheated atmosphere of Sin City, where those who lack a grander design or a dreamier thema than their competitors appear to be guilty of a sin even greater than beving no money to gamble away.

Christopher Parkes

Gencor lifts its holding in Alusaf to 73%

By Mark Ashurst in Johannesburg

Gencor, the South African mining and metals group, has bought a 32 per cent stake in Alusaf, the country's primary aluminium producer, increasing its interest to 73 per cent.

The move is a vote of confidence in the export potential of Alusaf's new Hillside Smelter in KwaZulu Natal province, which Gencor hopes will further its ambition to become a world-class commodities producer. The group will offer a further R1.8bn ($415m) for the balance of shares held by minorities including Sanlam and Old Mutual, the insurance groups, and Eskom, the state electricity supplier.

The R1.3bn Hillside smelter, which began full production on June 21, has an annual capacity of 496,000 tons of primary aluminium – almost 5 per cent of the world market. A pre-feasibility study for a second smelter near the Mozambican harbour capital of Maputo is under way.

Gencor previously held 41 per cent of Alusaf, and has acquired the 32 per cent stake held by the state-owned Industrial Development Corporation in a deal worth almost R2.2bn. But it has chosen not to finance the deal, using the R1bn netted last week from selling its 15.3 per cent interest in Malbak, the South African food, pharmaceutical and retail group.

In place of cash, the Industrial Development Corporation has accepted an entitlement equivalent to 185m Gencor shares, which may not be exercised within three years. After that period Gencor may settle in either cash or shares, although the IDC has the right to call for up to 25 per cent of the settlement to be paid in Gencor equity.

The IDC, which has been instrumental in promoting the new Alusaf smelter, has made a paper profit of R1.2bn since its first investment in the project in 1992. Alusaf is the largest smelter ever built in a single phase.

It is a mark of the changing fortunes of South Africa's primary aluminium sector that although other commercial investors were wary of supporting Alusaf, Gencor is hoping to find foreign backers to fund the Maputo smelter if the current study is successful.

Mr Brian Gilbertson, chairman of Gencor, expects Alusaf to earn at least R1.5bn a year in foreign exchange. Capital intensive industry in Sonth Africa is favoured by an abundant supply of low-cost electricity generated from coal, a legacy of attempts by the government to develop self-sufficiency in energy during the isolation of the apartheid era.

NEWS DIGEST

Magellan fund hit by redemptions

The Magellan fund, run by Fidelity Investments, the US mutual fund group, suffered redemptions in June following the resignation of Mr Jeffrey Vinik, its portfolio manager, late in May. The fund's performance slipped further behind the return so far this year on the Standard & Poor's 500 index. The fund's net asset value fell from $56bn at the end of April to $54.5bn at the end of June. Fidelity said it did not publish specific figures on redemptions, but confirmed there had been an outflow of cash from the fund. The pace of redemptions had slowed, the company said, and most of the money taken out of the fund by investors had been redirected to other Fidelity equity funds. The return on the fund to the end of June was 2.81 per cent, which compares with 10.10 per cent from the Standard & Poor's 500.

Mr Bob Stansky, the new manager, officially took charge of the fund at the beginning of June. *Maggie Urry, New York*

Cominco buys Peruvian stake

Cominco, the Vancouver-based metals producer, has bought a 26 per cent interest in Peru's Inversiones Colquijirca, which owns 51 per cent of a lead and zinc mine near Cerro de Pasco in the country's central highlands.

Terms of the deal were not disclosed. Cominco has become increasingly active in Peru in recent years, including the purchase of a zinc refinery near Lima in late 1994.

The Colquijirca mine processes about 2,100 tonnes of ore a day, and controls nearby zinc, lead and copper deposits. Cominco said preliminary estimates suggested the San Gregorio property may be the largest undeveloped zinc deposit in Peru. *Bernard Simon, Toronto*

CKI offer heavily oversubscribed

The global offering of Cheung Kong Infrastructure Holdings (CKI), which is being spun off from Cheung Kong, the property development company controlled by Mr Li Ka-shing, has been heavily oversubscribed, bankers said yesterday.

The Hong Kong *initial public offering of 29.78m shares is* understood to be about 23 times subscribed, and the international placement of 268.02m shares 25 times subscribed. Shares were priced at HK$12.65 a share.

CKI will raise net proceeds of HK$4.16bn (US$537m). While analysts beve viewed the company as overdependent on the construction sector, most agreed the offer would succeed because of the Cheung Kong name. CKI receives an estimated 70 per cent of its revenues from its cement and concrete activities in Hong Kong. *Louise Lucas, Hong Kong*

TNT link boosts logistics side

TNT, the Australian transport group, has announced a link with Computer Sciences Corporation, the US information technology provider, aimed at expansion in the world logistics business. Mr David Mortimer, TNT managing director, said *yesterday the link, described as a strategic alliance, would* give the companies a strong competitive advantage in the logistics industry.

Mr Mortimer said the companies were trading in Europe as E2E, a company based in Amsterdam and focusing on cost reduction for customers in large cross-border contracts. TNT, which entered the logistics business three years ago, is projecting revenues of about A$1.5bn (US$1.17bn) from the sector in 1996. *Bruce Jacques, Sydney*

Gannett to sell outdoor unit

Gannett, the US media group, is to sell its outdoor advertising division to Outdoor Systems of Phoenix, Arizona, for $690m. Mr John Curley, Gannett chairman, said the proceeds of the sale would go to paying debt. The sale would also allow Gannett to focus on its core businesses, including recently acquired multimedia businesses, he said. *AFX News, Virginia*

Dickson considers bid for Barney's

By Louise Lucas in Hong Kong

Dickson Concepts, the Hong Kong-based luxury wholesaler *and retailer, is considering* a bid for Barney's, the bankrupt New York retailer, although the company stressed talks were at a preliminary stage and may not result in an offer being made.

Mr Dickson Poon, chairman of Dickson Concepts, said: "We are looking at Barney's...*it's* at an extremely early stage and may or may not lead to our making an offer." Other parties are understood to be considering bidding for the US retailer.

Analysts in Hong Kong reckon Dickson has the expertise and experience to turn round the ailing store chain, citing its record with Harvey Nichols, the UK department store it bought in 1991 and floated in April. But they agree reviving the fortunes of Barney's, which filed for Chapter 11 bankruptcy protection from creditors in January and is embroiled in a legal tussle with Isetan, a Japanese retailer with which it formed an alliance, would ba a more ambitious project than any it has attempted in the past.

Dickson's cash balance of more than HK$1.2bn (US$155m) would help fund any acquisition. The company raised some £64m (US$99m) through the sale of 49.9 per cent of Harvey Nichols, and since then has spent just HK$180m to take control of the up-market Seibu chain's department stores in *Hong Kong and Shenzhen.*

Analysts reckoned the market would welcome an offer by Dickson for Barney's, as it would increase the group's geographic exposure and give Hong Kong its first truly international retailer. Mr Lindsay Cooper, at Crosby Securities in Hong Kong, said the group would avoid the problems that Isetan encountered in its alliance with Barney's by assuming full control, rather than keeping the original management in place.

He said: "The problem Isetan had was that management control was still very much with the original family that founded the company. I would imagine if Dickson did buy Barney's, it would have full control. Mr Poon and his team are competent business managers so I think they would be running the show, as they *did* with Harvey Nichols."

Even if talks do not lead to a sale, analysts see mileage for Dickson in introducing brand names carried by Barney's. This could lead to distribution deals, with Dickson representing the labels in Asian markets. If a sale does go ahead, analysts say Barney's could be a showcase for Dickson in the US.

Fall in semiconductor orders indicates industry slowdown

By Louise Kehoe in San Francisco

Motorola has kicked off what is expected to be a dismal round of earnings reports from the US semiconductor industry.

Not only were semiconductor sales down 5 per cent in the quarter, but orders booked in the period were down by 34 per cent, signalling even slower sales in the coming months.

The third largest US chipmaker after Intel and Texas Instruments, Motorola will not be alone in reporting a sharp drop in chip revenues for the June quarter, according to industry analysts.

Several other chipmakers have already warned that their results may disappoint. Advanced Micro Devices expects lower sales, while Cyrix has projected a loss for the quarter. Both compete with Intel in the market for microprocessor chips used in personal computers.

Among smaller chip companies, Altera has issued a profits warning and cut its workforce. Brooktree expects a loss for the quarter. Integrated Silicon Solutions has warned that earnings will fall below those for the first quarter of the year. Lattice Semiconductor expects an 8-10 per cent shortfall in sales, and Sierra Semiconductor has forecast lower sales and earnings.

Last month National Semiconductor and Micron Technologies both reported sharp drops in earnings for their fiscal quarters ending in May.

It all adds up to a broad slowdown in semiconductor sales that now appears to be affecting many product types beyond the "commodity" memory chip segment, which has been slow for six months.

One cause of slower chip sales is a change in the buying patterns of US personal compnter manufacturers, which are among the biggest consumers of semiconductor chips. Prompted by sharp price falls for memory chips, PC manufacturers are rednciug their stocks of many types of semiconductor components, say industry analysts. This has caused a slowdown in orders as the PC makers work off existing inventories, which were in any case bloated by lower-than-expected PC sales last Christmas.

There are some signs, however, that the slump in semiconductor sales may already have bottomed.

The North American book-to-bill ratio, a closely watched indicator of the industry's health, rose in June, according to new data released this week by the Semiconductor Industry Association, a trade group.

For June the ratio, which measures tha value of new orders booked versus sales revenues, was 0.91, up from a revised figure of 0.83 in May.

New chip orders booked increased slightly, from $3.09bn in May to $3.11bn in June. Analysts said this indicates that order activity may be about to pick up. Sales continued to decline, *however,* from $3.7bn in May to $3.43bn in June, a 7 per cent drop.

Despite the general slowdown in semiconductor sales, Intel, the world's largest chipmaker, is expected to show continued strong growth for the June quarter. Analysts are projecting earnings of $1.09 a share, a nine per cent increase over 99 cents a share in the same period last year.

Motorola postpones expansion

Motorola, the US semicondnctor and telecommunications equipment group, reported a 32 per cent fall in second-quarter earnings and said it would postpone plans for expanding semiconductor output, writes Louise Kehoe.

The company blamed heavy price competition and weakening demand in the semiconductor sector as well as pricing pressures in the cellular telephone market for a result that was significantly lower than expected. Costs associated with introducing new cellular phone technologies also reduced earnings, it said.

Revenues for the second quarter were $6.83bn against $6.88bn last year. Net income fell to $326m, or 54 cents a share, against $481m, or 79 cents, a year ago.

Analysts had been forecasting a decline, but were expecting earnings of about 68 cents.

"We expect the factors that have affected second-quarter earnings to continue," said Mr Gary Tooker, Motorola vice-chairman and chief executive. "We are selectively deferring capacity expansion programmes."

In the semiconductor sector, Motorola said sales fell 5 per cent to $2bn and orders declined 34 per cent. Cellular telephone revenues fell because of lower prices, although sales of equipment used by service providers rose. In the messaging, information and media sector *sales rose 20 per cent to $1.1bn.*

LEGAL NOTICES

PURSUANT TO VOLUNTARY LIQUIDATION IN THE CAYMAN ISLANDS OF THE FOLLOWING NAMED 11 MUTUAL FUNDS REGULATED UNDER THE MUTUAL FUNDS LAW OF THE CAYMAN ISLANDS AND THEIR MUTUAL FUND MANAGERS:

American Real Estate Growth Fund Limited,
Anchorage International Fund Limited, Argentina Income & Growth Fund Limited,
Argentina Income & Growth Fund Manager Limited, Brazilian Growth Fund Limited,
Brazilian Growth Fund Manager Limited, Connecticut Fund Manager Limited,
Dome Investment Fund Limited, Guardian Credit Fund Limited,
Liberty Fund Manager Limited, Metropolitan Real Estate Fund,
Mexico Capital Fund Limited, Mexico Capital Fund Manager Limited,
Pacific Rim Fund Limited, Pacific Rim Fund Manager Limited,
Providence Fund Manager Limited, Stanford Fund Manager Limited,
Strategic Investment Fund Limited, Venezuela and Latin America Fund Limited,
Venezuela and Latin America Fund Manager Limited

TAKE NOTICE THAT: creditors (if any) of the above named companies are required, on or before July 31, 1996, to send full particulars of their debts or claims to the Joint Liquidators of the above named Cayman Islands regulated mutual funds and mutual fund managers.

In default thereof such creditors will be excluded from the benefit of any distributions from the said companies made before such debts are proved.

This Notice is issued by Mr Christopher D Johnson and Alan J Davies of Coopers & Lybrand, Cayman Islands, Joint Liquidators.

The address of the Joint Liquidators is:

c/o Coopers & Lybrand, PO Box 219, George Town, Grand Cayman, Cayman Islands, British West Indies. Telephone: # 809 949-7000. Fax: # 809 947-4237.

Dixons profits leap 35% to £135m

By Christopher Brown-Humes

Dixons, the UK's biggest electrical retailer, yesterday provided fresh evidence of rising consumer confidence as it reported a 35 per cent jump in underlying profits and a strong start to the current year.

Shares in the group rose 14.5p to 530p, as analysts sharply upgraded their profits forecasts for this year.

Sir Stanley Kalms, chairman, said: "Against the background of improving consumer confidence, the outlook for the financial year is promising."

The upbeat assessment confirms the views of other leading retailers, including Marks and Spencer and John Lewis, that sentiment in Britain's high streets is recovering.

Analysts said Dixons would do particularly well because spending – including windfall building society payouts – was being directed more towards consumer durables than clothing. It is the country's biggest seller of personal computers – where sales are growing rapidly – and should see higher white good sales due to the housing market recovery.

Profits before tax and exceptionals rose from £100.3m to £135.2m ($210.9m) in the year to April 27. The pre-tax figure was £101.5m after an exceptional £33.7m write-off relating to a failed US investment.

The figures underline the group's dominance of the UK electrical retailing sector, where its 17 per cent market share dwarfs competitors such as Comet and the regional electricity companies. It reinforced its lead last year by lifting its market share in PCs, brown goods, white goods, and mobile phones.

One analyst said: "This is a real quality story. They are doing absolutely everything right."

Like-for-like sales rose 11 per cent, lifting total retail sales by 23 per cent to £1.9bn. The improvement reflects a 17 per cent rise in retail selling space, store refurbishments, and a jump in PC sales. Currys Superstores, PC World and The Link, were all expanded aggressively.

The star performer was PC World, the computer specialist, where sales more than doubled to £262m and like-for-like sales jumped 30 per cent. Sales at Dixons, the high street chain specialising in personal and portable electronics, rose from £522m to £578m (9 per cent like-for-like) while sales at Currys, which concentrates on larger white and brown goods, jumped 16 per cent to top the £1bn-mark (a 10 per cent rise like-for-like). The Link, a telecommunications specialist, saw sales leap from £1.8m to £21m.

Retail operating profits climbed 38 per cent to £125m.

BZW upgraded this year's profits forecast from £160m to £190m, while Kleinwort Benson increased from £160m to £175m.

Stanley Kalms: his upbeat assessment confirmed the views of other leading retailers Brendan Corr

Somerfield float could raise up to £570m

By Christopher Brown-Humes and David Blackwell

Somerfield, the UK's fifth biggest supermarket chain, is today expected to set an indicative price range for its flotation which would raise between £530m and £570m ($890m).

The range suggests Somerfield is holding its nerve in the face of a tougher new issues market and adverse comments on the group's prospects.

Dramatic evidence of the market problems emerged yesterday when Monsoon, the fashion retailer, abandoned plans to float.

Somerfield's flotation prospectus is due to be published today.

Indications early this week suggested that institutional investors would take a lot of convincing to take the stock, except right at the bottom end of the range.

If Somerfield is floated according to the range in the prospectus, it will put the group on a price/earnings multiple of between 9 and 10 times. This is a substantial discount to the market – but not as big as some analysts have suggested is necessary to ensure success. One analyst said yesterday he had expected pricing to be between £450m and £500m.

However, the prospectus will include a provision to set a price outside of the published range, although such a move is unlikely to impress potential investors.

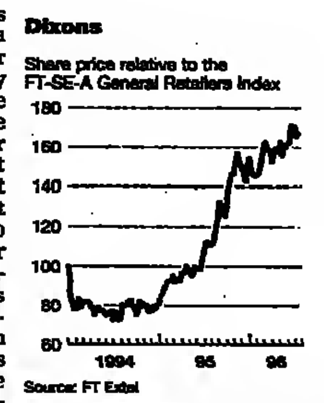
Last month Jarvis Hotels came to the market via a bookbuilding exercise. At the last moment it raised the top of its range to 180p a share – well above the 150p-170p set in the prospectus. The final price was 175p, but the shares have since languished and closed yesterday at 171½p.

Somerfield maintains that it has had a positive reception both from institutions and its own shoppers. It has undergone a strong recovery since Mr David Simons became chief executive in 1993, culminating in a 43 per cent jump in operating profits to £100.5m last year.

LEX COMMENT

Dixons

Dixons is sitting pretty as the dominant force in a growing market. Demand for electrical goods has risen by 7 per cent a year over the past decade, almost three times the rate of consumer spending generally. That should continue, with a raft of new products like flat screen televisions likely to attract more than their fair share of those building society windfalls. And Dixons is pulling away from the competition. Its market share in white and brown goods is already 20 per cent – twice that of nearest rival Comet – and rising as regional electricity companies and Escom of Germany (which bought most of the former Rumbelows shops in the UK) have run into trouble. Yesterday's 35 per cent increase in underlying profits showed the group reaping the benefits.



For now, Dixons should just keep on doing what it is doing already: opening more out-of-town sites; expanding its successful PC World computer format; and investing in distribution and customer service at a pace that rivals cannot match. Capital spending was 2.4 times depreciation last year and the ratio will be similar again this time. With Dixons' disastrous diversification into the US fresh in the directors' minds – the final £34m write-off was taken in these figures – there is little danger that the company will stray into foreign markets. And for the next three years there is plenty of room for expansion in the UK. After the massive outperformance of the past 18 months, the shares are trading on a lofty 19 times expected current-year earnings. But they offer earnings growth to match and still look attractive.

Brewers take fizz out of Matt Clark return to black

By David Blackwell

Matthew Clark, the acquisitive drinks company, yesterday blamed a sharp reduction in brewers' discounts on draught beer cutting profits in half at its wholesale division.

The collapse in wholesale profits, coupled with higher than expected exceptional charges for restructuring, disappointed the City, and the shares fell 17p yesterday to close at 743p. Operating profits at Freetraders, the wholesale side that takes 100,000 barrels of beer a year, tumbled to £2.7m (£5.3m), and margins fell to 1.7 per cent (4.4 per cent).

Mr Peter Aikens, chief executive, said 18 months ago the group had been buying beer on the same terms as pub groups, but now it was paying £40 to £45 more per barrel. But he believed there was no further downside, and predicted that the wholesaling business presented a great opportunity as the tied system between brewers and pubs continued to fragment.

The group returned to the black in the year to April 30, with pre-tax profits of £17.2m ($26.8m) after exceptionals of £25.1m for restructuring. This compares to a pre-tax loss of £11.3m after exceptionals of £32.7m in the previous period.

Group sales rose by more than half to £451m, with acquisitions contributing £99.4m. Wholesale sales accounted for £162.6m, up more than a third.

Mr Aikens, who has driven the group to second place in the UK cider market behind Bulmer, said the group was planning for organic growth through its collection of leading brands, including Gaymer's Olde English and Taunton Cider's Blackthorn. "The disruption and hell and high water is behind us, and all tails are up."

Operating profits in the branded drinks division jumped from £17m to £41.2m, with margins jumping from 9.5 per cent to 14.3 per cent. The sales increased 61 per cent to £288.4m including £65.6m from acquisitions.

The group claims 41 per cent of the UK cider market after paying £105m for Gaymers at the end of 1994 and £275m for Taunton last November. It is concentrating on Olde English for the off-trade and Blackthorn for the on-trade.

Mr Aikens admitted that the disruption of integrating the two acquisitions had damaged marketshare for both brands, but it was too early to break out their individual performances.

A final dividend of 15p is proposed, lifting the total for the year to 24p (21p).

Laporte nears end of disposal plans

By Simon Kuper

Laporte, the UK's fourth largest chemicals company, completed the bulk of its divestment programme yesterday, raising £23.5m ($36.7m) by disposing of non-core businesses and saying it would invest £19m in its electronics division.

The sales, which follow Laporte's divestment from most of its Australasian businesses in June, mean the company has received more than £52m cash in two months. Mr Jim Leng, chief executive, said Laporte planned to sell further companies representing "a bit more" than £10m in turnover.

The businesses sold yesterday made operating profits of £1.9m on sales of £22.3m in 1995. They are Gramos, a Birmingham-based process chemicals business; Countdown Clean Systems, a cleanroom garments business; Waverly Minerals, a US pet litter business; and Laporte's 50 per cent stake in Laporte (Malaysia), an absorbents business.

They have been sold for a £7.5m premium over net asset value, but there will be a goodwill write-off of about £14m. Analysts left their pre-tax profits forecasts unchanged at £120m. "The businesses they are selling are frankly virtually unprofitable," said one.

Laporte made restructuring provisions of £86.7m last December when it decided to sell off non-core businesses accounting for 10 per cent of its sales.

Laporte will invest £19m in the next two years to expand its reprocessing facilities for high-margin electronic silicon wafers, used in making semiconductors. Of the money, £6.5m will be spent on expanding existing facilities in the UK and France, and £12.5m on a new plant in Phoenix, Arizona.

Ivernia West raising I£41m via rights issue

By Jane Martinson

Ivernia West, the Irish minerals exploration company, is raising I£41.25m (£43.3m) from a rights issue to reduce debt and finance the development of a zinc-lead mine.

The issue is on the basis of one convertible loan stock unit, priced at 80p, for each ordinary share. The shares were unchanged at 90p yesterday.

Payment for the loan stock will be in two equal instalments. The second one will be delayed until planning permission is granted to the Lisheen Mine, the second largest zinc-lead deposit in Europe, or July 1 1998, whichever comes first. On payment of the second instalment, the loan stock immediately converts into ordinary shares.

The mine, in County Tipperary, is a joint venture between Ivernia and Minorco, part of the Anglo American Corporation of South Africa. Minorco, which also owns 24 per cent of Ivernia, has agreed to pay about I£9.9m to take up its rights to 12.3m loan stock units.

The remaining 39.2m units have been underwritten by the new broking partnership of ABN AMRO Rothschild, acting through Riada, the Dublin stockbroker.

Ivernia's current net debt of I£8m – which gives gearing of 76 per cent – will be wiped out by the issue.

Cambrio flotation value downgraded to £20m

By Simon Kuper

The biotechnology sector suffered another blow yesterday when Cambrio said its valuation at flotation would probably be only £20m ($31.2m) – the bottom end of its revised target set last week – and postponed its entry to the market until the end of the month.

In June, the Cambridge-based drugs company had been hoping for a £25m valuation and an impact day of July 4.

Mr Richard Onyett, a director, said that Henry Cooke Corporate Finance, sponsor of the float, was "continuing to market" the shares to institutions.

However, institutions have been asked to invest in five biotech flotations and several rights issues on the main market alone in the last few months. British Biotech launched a £143m rights last month; Cambrio is hoping to raise £10m.

Mr Onyett said it was wrong to link Cambrio to the biotech sector, in which most stocks have fallen in recent weeks.

This meant that unlike a typical biotech company, Cambrio already had one product on the market – Paradote, an overdose-protected paracetamol – and another, a thalidomide-based drug for Aids, that was already being sold to patients although it was still undergoing clinical trials.

Cambrio suffered pre-tax losses of £342,000 (£1.13m) on sales of £4.2m (£4.96m) for the year to March 31. The main operating subsidiary is Penn Pharmaceuticals, a private company.

Analyst joins board of unlisted Phairson

By Simon Kuper

Mr Dier Cowling makes the rare jump from an analyst's job to working for a biotechnology company tomorrow, when he leaves James Capel, the stockbroker, to become director of business development at unlisted Phairson Medical.

Mr Cowling is part of the Capel's team that took second place in Extel's annual survey of health care analysts and third place in its survey of pharmaceuticals analysts.

At 31 he has worked nearly a decade in the City, having spent five years as an analyst at Nomura Research Institute and four years at Capel. He said: "I didn't realise it would happen as quickly as this, but I always thought if an offer came from the right company with the right technology I'd consider it."

Phairson, founded in late 1993, is developing products using the compound PHM-101, an enzyme discovered in a species of Antarctic Krill. Five phase II clinical studies have been completed for use of the compound to combat infections including genital herpes and post-partum haemorrhoids.

Clinical trials in acne, fungal nail infections and genital warts are still being carried out. Mr Cowling said: "The product definitely has biological activity, but we don't know what this will mean therapeutically yet."

Phairson is thought to have no immediate plans to float, given the market's sceptical attitude to biotechnology stocks in recent weeks.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BWD	6 mths to May 31	7.79	(6.86)	1.31	(1.03)	4.4	(5)	2	Oct 1	1.7	-	5
Border Television	Yr to Apr 30	12.64	(11.61)	2.3	(1.93)	14.7	(6.6)	3.6	Sept 17	2.9	5.8	4.8
Compco	Yr to Mar 31	8.28	(2.3)	2.1♥	(0.772♠)	7.4	(49)	3.24	Oct 1	3.24	3.24	3.24
Dixons Group	Yr to Apr 27	1,920	(1,647)	101.5♠	(100.3)	15.3†	(6.8)	6.7	Oct 1	5.45	8.75	7.25
Domino Printing	6 mths to Apr 30	51.6	(50.2)	4.05	(4.73)	8.63	(1.54)	4.0	-	3.7	-	10.1
FI Group	Yr to Apr 30	78.82	(61.7)	3.76♠	(3.26)	8.2†	(4)	2.7	Oct 1	-	4.1	-
M&W	6 mths to Mar 31	56.7	(48.2)	0.843	(1.06)	3.11	(06)	1.25	Aug 16	1.25	-	3.5
Matthew Clark	Yr to Apr 30	450.9	(299.3)	17.19♠	(11.35L)	16.4	(7L)	15	Oct 3	13	24	21
Stanley Leisure	Yr to Apr 28	318.1	(293.1)	14.75	(16.97)	18.6	(2)	4.65	Sept 16	4.15	6.65	6.15

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital.

INTERNATIONAL CAPITAL MARKETS

Bevy of dollar issues at short end of yield curve

By Richard Lapper, Capital Markets Editor

Strong European and Asian demand for dollar issues paved the way for the issuance of a bevy of short-dated dollar deals yesterday, with spreads tightening when the bonds were freed to trade.

Yields on a two-year bond for Toyota Motor Credit Corp, launched by Nomura and SBC Warburg, fell from a level of flat to US Treasuries to 3 basis points under, while yields on a three-year deal for Swiss Bank Corporation, led by SBC Warburg, fell from minus 3 to minus 6 basis points under Treasuries.

Dealers pointed to heavy retail demand especially from Switzerland, following last Friday's sell-off in the Treasury market and subsequent gentle rally in prices.

"People were looking for opportunities to buy on dips and many Swiss were encouraged to buy euro issues which dropped below par," said one. Demand for the Toyota deal was helped by a shortage of quality corporate paper at the short end of the yield curve, added a syndicate manager.

A lead manager at Nomura, said however, that there had been unusual demand from large UK institutions, taking defensive positions as a result of volatility in the US market and seeking to benefit from strong performance by deals targeted at retail investors.

Yields on a three-year deal by Toyota Motor Finance launched in May have fallen from 5 basis over US Treasuries to Treasuries less 15, for example.

INTERNATIONAL BONDS

Elsewhere, as expected, Fortis Investments, part of the Dutch/Belgian financial group, launched the latest of several recent European securitisations and the first mortgage securitisation from the Netherlands with a Fl 500m issue.

Payments on the securitised mortgages are guaranteed either indirectly by the Dutch state or by Dutch local authorities and the issue carries a zero risk weighting.

Syndicate managers at UBS reported a favourable reception from investors, with more than half the demand for the issue coming from outside the Netherlands. The yield spread over the Dutch government bond tightened from 21 basis points at launch to 20¾ bid and 19¾ offer when the bonds were freed to trade.

UK financial institutions were also active in the market, with both Halifax Building Society and Abbey National Treasury Services raising money from European investors for funding purposes.

Abbey National launched a SFr300m three-year issue which will become fungible with its SFr300m deal launched last month. Like the earlier issue it is led jointly by SBC, UBS and Credit Suisse and is designed to increase the bank's name awareness among Swiss retail investors.

By contrast, Halifax targeted its FFr2bn 12-year deal at French institutional investors. The proceeds of both issues will be swapped, generating funding at sub-Libor rates.

Woolwich Building Society issued its first subordinated debt since 1993, with a £200m 25-year bond. Launched at a spread of 115 basis points over the 8 per cent 2021 gilt, the issue is classed as tier two capital for regulatory purposes and forms part of the society's restructuring programme ahead of its plans to float on the stock market.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
MBNA MCCT II, 1996-G(a)‡	425	(a1)	100.00R	Jul 2006	0.475R	-	Lehman Brothers
Deutsche Bank Finance	300	6.50	99.767R	Jul 1999	0.1875R	-2(6¼%-99)	Deutsche Morgan Grenfell
Swiss Bank Corp Jersey Branch	300	6.50	99.81R	Jul 1999	0.1875R	-3(6¼%-99)	SBC Warburg
Toyota Motor Credit Corp	300	6.375	99.809R	Aug 1998	0.125R	flat(6¼%-98)	Nomura Intl/SBC Warburg
Baden Württemberg L-Fin(j)	200	6.75	99.767R	Jul 2000	0.225R	+56	ABN Amro Hoare Govett
Pfizer Intl Holdings Corp(b)§	175	1.75	100.00	Jul 2006	2.50	-	Deutsche MG/ING Barings
Senshin Electronics Co(c)§	130	3.00	100.00	Jul 2000	2.25	-	Daiwa Europe
Export Development Corp(d)†‡	50	(d1)	100.30	Aug 2001	0.30	-	DKB International
D-MARKS							
WGZ Bank Ireland‡	300	(e)	99.88	Aug 2001	0.20	-	HSBC Trinkaus&Burkhardt
FRENCH FRANCS							
[illegible]	10bn	(f)	100.70	Jul 2026	0.70	-	Nikko Europe
SWISS FRANCS							
Abbey Natl Trsy Services(g)#	300	4.00	102.05	Dec 1999	1.50	-	SBC
Asfinag	100	3.00	99.95	Aug 1999	1.25	-	UBS
STERLING							
Woolwich Building Society	200	8.50	99.642R	Aug 2021	0.656R	+115(8%-21)	BZW/UBS
GUILDERS							
Fl Mortgage Securities	500	6.75	99.808R	Jul 2006	0.325R	+21(6-)	UBS
ITALIAN LIRE							
Halifax Building Society	[illegible]	[illegible]	99.848R	Aug 2008	0.375R	+130	CDC
AUSTRALIAN DOLLARS							
Norddeutsche Landesbank(k)	100bn	8.125	101.245	Aug 1999	1.375	-	IMI Bank Luxembourg
ECUs							
Inter-American Dev'ment Bank	2bn	0	102.20	Sep 2000	1.875	-	Banque Paribas Lux
AUSTRALIAN DOLLARS							
SBAB#	100	8.219	100.00	Jul 2001	undisc	-	Sumitomo Finance Intl
Rabo Australia	100	8.25	101.2125	Aug 1999	1.50	-	Daiwa Europe
LW Rentenbank(l)	7.60	100.734		Dec 1999	1.50	-	BCH
NEW ZEALAND DOLLARS							
European Investment Bank(k)	100	9.00	101.83	Jul 1999	1.50	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. Unlisted. §Convertible. ¢With equity warrants. ‡Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Legal maturity: 15/12/08. a1) 1mL +18bp. a2) $37½m, 1mL +35bp, 15/8/06. b) Convertible into Pilipino Telephone at P842. FX: P26.202/$. Puttable on 17/1/02 at 138.73%. Callable from 17/7/99 subject to 140% hurdle. c) Fixing: 16/7/08. d) Callable on 8/98 at par. d1) 6mL +30bp; capped at 7% to 8/97, 7¼% to 8/98, then 7.65%. e) 3mL 6¼bp. f) Puttable annually from 17/7/06. [illegible] 7.40% in A$, 8.10% in US$ or 6.55% in DM. g) Fungible with SFr300m. Plus 20 days accrued. h) L200bn launched 5/7/96 increased to L300bn. i) Over interpolated yield. j) 5.5% to 6/9/00, 7% to 6/9/03, then 8.75%. k) NZ$100m launched 11/6/96 increased to NZ$[illegible]m. § Long 1st coupon.

OTC financial transactions at record levels

By Samer Iskandar

Activity in over-the-counter (OTC) financial derivatives soared to record levels last year, according to the International Swaps and Derivatives Association (ISDA).

Transactions outstanding in interest rate options, and currency and interest rate swaps stood at $17,713bn at end-1995,

DERIVATIVE INSTRUMENTS

up 56.7 per cent from $11,303bn a year earlier. The notional volume of new business grew 39.4 per cent to $8,699bn in 1995, from $6,241bn in 1994.

Netting – offsetting amounts owed to each other by two or more institutions – has been a main factor contributing to the growth of OTC derivatives.

"Netting allows more efficient use of capital and reduces risk," said Mr Robert Schwartz, co-chairman of the ISDA market survey committee and executive vice-president of Republic National Bank.

Fears have often been expressed that the growing use of non-exchange traded derivatives could induce a rise in the overall level of risk. However, Mr Schwartz pointed out that, in parallel with the market's growth, "dealers and end-users continue to develop credit-risk mitigation techniques".

These include the use of collateral – often required by dealers from counterparties of lesser financial strength – as well as termination clauses built into OTC contracts that are activated when pre-determined events occur, such as a credit downgrading of one of the counterparties.

ISDA said that, over the years, the default rate on swaps had been stable at a "very low" level. Furthermore, said Mr Schwartz, "the overwhelming majority of counterparties are investment-grade institutions", a fact that has been constant since OTC derivatives trading started.

The association pointed out that the rise in activity had been strong in all sectors of the OTC market but some types of transactions have clearly gained more than others.

For example, interest rate options – comprising caps, collars, floors and swaptions – outstanding at year-end 1995 stood at $3,704bn, an impressive 136 per cent higher than a year earlier.

Mr Tom Montag, vice-chairman of ISDA and a partner at Goldman Sachs, attributes "the robust activity in these options ... to increased mortgage hedging, increased market volatility and the general pick-up in business".

Growth was particularly strong in non-dollar transactions, a sign of "the growing sophistication of non-US dealers and investors", according to a risk manager at a large European bank.

Outstanding currency swaps in French francs and Danish kroner, for example, grew by 66.1 and 78.5 per cent respectively from year-end 1994 to year-end 1995. Elsewhere, outstanding currency and interest rate swaps in yen grew 369.8 per cent between 1991 and 1996 – or 278.9 per cent in constant exchange rate terms.

Based on information from participating dealers, ISDA counted a total of 430,842 swaps transactions of all types outstanding at the close of 1996, up from 306,197 a year earlier.

The data was compiled by Arthur Andersen, the accounting firm, from 71 ISDA member dealers around the world.

Fed study lifts Treasuries but most of early gains erode

By Maggie Urry in New York and Antonia Sharpe in London

US Treasury prices reacted positively to a study by Federal Reserve economists suggesting it should not take an aggressive stance on inflation, so long as prices are rising moderately, until the economy is in recession.

An article in the Wall Street Journal suggested this could explain the Fed's decision last week not to increase interest rates. That lifted hopes that the rise in the Fed's target interest rate, which the market is expecting, could be averted.

However, as the morning progressed gains of more than a quarter point on the long bond were eroded. By midday, it was up 3/32 at 86 5/32 to yield 7.111 per cent and the two-year note was 1/16 higher at 99 13/32, yielding 6.334 per cent. The September 30-year bond future was 7/16 stronger at 107%.

Since last Friday's employment report showed the economy was stronger than many thought, the bond market has been expecting the Fed to increase its target rate at its next policy meeting on August 20, if not before, to head off a threatened rise in inflation.

■ Trading in European government bond markets waa uneventful, despite the recovery in the US Treasury market since last Friday's fall. Analysts said trading was set to remain quiet today as no

GOVERNMENT BONDS

changes were expected to be announced by the Bundesbank following its fortnightly council meeting, although there were faint hopes that it might switch to a variable repo rate from a fixed rate.

"The European markets are in a state of suspended animation until Friday's US data," said Mr Stephen Hannah, chief economist at IBJ. US PPI and retail sales data for June are dua tomorrow, as is the latest Michigan sentiment survey.

■ A slender cut of 1/16 point in French call muney to 3 5/16 caused a flurry of excitement in the French government bond market which rallied for the third consecutive day.

Mr Julian Jessop, chief European economist at Nikko, said the cut suggested there could be some monetary easing from the Bank of France independently of the Bundesbank. The cut meant that the short end of the yield curve remained well-supported whila the long end was neglected because of its perceived lack of value.

On Matif, the September 10-year notional government bond future returned to its level before the US non-farm payroll release last Friday. It rose to 121.84 before settling at 121.70, up 0.32 on the day.

■ UK gilts also returned to highs seen last week. On Liffe, the September long gilt future touched a new contract high of 107 1/32 but was unableto break decisively above thislevel. In the late afternoon, it raded at 106 29/32, up 5/32 point onthe day. The spread ovar ermany cama in to 149 bass points from 151 points.

■ A delay in cuttin interest rates and political salemate over the governmen's three-year economic plan set Italian bonds lower. Septemer government bond futurs eased 0.27 to 117.11 in the ternoon, but were off the day low of 117.01. The spread ver Germany widened slighy to 282 basis points.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107.7480	-	8.82	8.82	8.95
Austria		6.250	05/06	97.1600	+0.160	6.55	6.56	6.45
Belgium		7.000	05/06	100.9600	+0.090	6.86	6.78	6.73
Canada *		7.000	12/06	94.4300	+0.400	7.78	7.75	7.69
Denmark		8.000	03/06	103.9600	+0.100	7.40	7.40	7.48
France	BTAN	5.750	03/01	100.3750	+0.130	5.65	5.65	5.36
	OAT	7.250	04/06	105.0400	+0.060	6.53	6.51	6.51
Germany Bund		6.250	04/06	97.9500	+0.300	6.54	6.55	6.53
Ireland		8.000	08/06	102.4300	+0.190	7.64	7.63	7.71
Italy		9.500	02/06	102.2900	+0.080	8.13†	9.24	9.47
Japan	No 140	6.600	06/01	118.6648	-0.040	2.57	2.29	2.32
	No 182	3.000	09/05	97.9902	+0.170	3.29	3.24	3.18
Netherlands		6.000	01/06	96.4400	+0.120	6.51	6.48	6.41
Portugal		11.875	02/05	118.3000	-0.090	8.74	8.71	8.95
Spain		8.800	04/06	100.2300	-0.070	8.74	8.86	9.23
Sweden		6.000	02/05	86.1240	+0.180	8.32	8.24	8.42
UK Gilts		8.000	12/00	103-08	+5/32	7.12	7.18	7.48
		7.500	12/06	97-08	+7/32	7.89	7.93	8.15
		9.000	10/08	107-20	+9/32	8.01	8.04	8.26
US Treasury *		6.875	05/06	99-09	+19/32	6.98	6.81	6.86
		6.000	02/26	86-07	+21/32	7.12	6.96	6.99
ECU (French Govt)		7.500	04/05	103.2500	+0.270	6.99	6.95	6.98

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.32
Prime rate	8¼	Two month	-	Three year	6.49
Broker loan rate	7	Three month	5.32	Five year	6.71
Fed funds	5¼	Six month	5.59	10-year	6.94
Fed funds at intervention	-	One year	5.88	30-year	7.10

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	121.80	121.70	+0.32	121.84	121.48	89,179	164,326
Dec	120.30	120.36	+0.30	120.48	120.20	291	28,898
Mar	120.06	120.12	+0.30	120.14	120.06	12	1,514

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Aug	Sep	Dec	PUTS Aug	Sep	Dec
120	-	-	1.53	0.05	0.25	-
121	-	1.18	-	0.14	0.46	-
122	0.23	0.59	0.58	0.53	0.90	-
123	0.05	0.25	0.35	-	-	-
124	-	0.06	-	-	-	-

Est. vol. total, Calls 15,102 Puts 10,726. Previous day's open int., Calls 120,023 Puts 137,294.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.51	95.57	+0.20	95.68	95.41	116314	195827
Dec	94.62	94.66	+0.20	94.76	94.54	1309	5743

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Aug	Sep	Oct	Dec	PUTS Aug	Sep	Oct	Dec
9550	0.36	0.64	0.42	0.73	0.29	0.57	1.26	1.57
9600	0.14	0.39	0.28	0.55	0.57	0.82	1.60	1.89
9650	0.04	0.22	0.18	0.40	0.97	1.15	2.00	2.24

Est. vol. total, Calls 27263 Puts 16446. Previous day's open int., Calls 149813 Puts 164084

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	117.52	117.22	-0.16	117.60	117.01	39698	84038
Dec	116.70	116.56	-0.14	116.70	116.40	189	1935

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	Dec	PUTS Sep	Dec
11700	1.20	1.72	0.98	2.18
11750	0.94	1.48	1.22	2.43
11800	0.73	1.29	1.51	2.70

Est. vol. total, Calls 5485 Puts 5084. Previous day's open int., Calls 75374 Puts 71571

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	101.50	101.31	-0.06	101.50	101.07	59,500	61,711

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	109-21	108-26	+0-10	107-01	108-18	48266	127885
Dec		105-31	+0-10			0	522

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Sep	Oct	Nov	Dec	PUTS Sep	Oct	Nov	Dec
106	1-02	1-27	1-16	1-48	0-14	0-39	1-18	1-51
107	0-27	0-54	0-53	1-15	0-39	1-02	1-55	2-17
108	0-07	0-26	0-30	0-53	1-19	1-40	2-55	2-58

Est. vol. total, Calls 1660 Puts 1118. Previous day's open int., Calls 23042 Puts 21787

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	90.50	90.64	+0.26	90.72	90.50	905	6,816
Dec		89.00					

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	108-30	107-14	+0-16	107-16	108-25	253,703	454,715
Dec	108-18	108-30	+0-16	107-09	108-17	58	16,880
Mar	108-19	108-19	+0-17	108-09	108-17	482	3,100

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	118.51			118.55	118.47	1871	na
Dec	117.51			117.52	117.45	585	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Jul 10	Day's change %	Tue Jul 9	Accrued interest	xd adj. ytd
1 Up to 5 years (22)	122.23	0.10	122.39	2.52	[illegible]
2 5-15 years (19)	146.62	0.20	146.33	2.23	[illegible]12
3 Over 15 years (9)	161.21	0.33	160.89	2.90	[illegible]
4 Irredeemables (6)	183.83	0.51	182.89	2.59	[illegible]96
5 All stocks (56)	142.05	0.19	141.89	2.49	[illegible]78
Index-linked					
6 Up to 5 years (1)	198.04	0.10	198.85	1.93	[illegible]43
7 Over 5 years (11)	188.06	0.22	187.86	1.41	[illegible]31
8 All stocks (12)	188.18	0.22	187.97	1.42	[illegible]34

Yield indices	Low coupon yield Jul 10	Jul 9	Yr. ago	Medium coupon yield Jul 10	Jul 9	Yr. ago	High coupon yield Jul 10	Jul 8	Yr. ago
5 yrs	7.27	7.30	7.82	7.31	7.35	7.85	7.39	7.42	7.92
15 yrs	8.11	8.14	8.18	8.12	8.15	8.21	8.20	8.24	8.32
20 yrs	8.20	8.23	8.18	8.21	8.24	8.22	8.26	8.29	8.32
Irred.†	8.25	8.30	8.30						

	Inflation 5% Jul 10	Jul 9	Yr. ago	Inflation 10% Jul 10	Jul 8	Yr. ago
Up to 5 yrs	2.49	2.54	3.22	1.03	1.07	1.86
Over 5 yrs	3.77	3.78	3.62	3.57	3.59	3.44

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jul 10	Jul 9	Jul 8	Jul 5	Jul 4	Yr ago	High*	Low*
Govt. Secs. (UK)	92.98	92.80	92.66	92.69	93.02	93.18	96.37	91.59
Fixed Interest	112.36	112.27	113.85	112.48	112.52	112.10	115.22	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jul 9	Jul 8	Jul 5	Jul 4	Jul 3
Gilt Edged bargains	78.0	69.2	87.0	85.7	76.2
5-day average	78.8	80.6	82.2	80.6	79.2

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on July 10

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	95⅞	96¼	+¼	7.28
ABN Amro Bank 7¼ 00	1000	98¼	98⅜	+¼	7.68
African Dev Bk 7⅜ 23	500	94	94½	+¼	7.92
Alberta Province 7⅞ 03	1000	101⅞	102¼	+¼	3.70
Asian Dev Bank 6¼ 00	750	98⅜	98½	+½	7.37
Austria 8½ 00	400	104⅞	105¼	+¼	6.88
[illegible]					
Sweden 6 97	2500	104⅞	105¼		4.10
United Kingdom 7¼ [illegible]	5500	103⅞	104⅛		5.98
Volkswagen Intl Fin [illegible]	1000	101⅞	102¼	+¼	6.65
World Bank 0 15	2000	30¾	30⅞	+¼	6.34
World Bank 5⅞ 00	3000	98½	98⅞	+¼	3.13
SWISS FRANC STRAIGHTS					
[illegible]					
Abbey Natl Treasury 8 03 £	1000	100¼	100½	+⅛	7.94
British Land 8⅞ 23 £	150	90½	90⅞	+⅛	10.13
Denmark 6¾ 00 £	800	100¼	100½	+¼	6.81
Depfa Finance 7¼ 03 £	500	95⅛	95⅜	+½	8.02
EIB 8 03 £	1000	101⅜	101⅝		7.78
Glaxo Wellcome 8¾ 00 £	800	101⅞	102	+¼	8.44
Hanson 10⅜ 97 £	500	104⅝	104⅞	+¼	8.44
[illegible]					

UK GILTS PRICES

	Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
Shorts (Lives up to Five Years)							
Treas 8pc 1996		8.91	5.53	210½	+¼	210½	211½
Conversion 10pc 1996		9.85	5.58	101½		104½	101½
Treas 13¼pc 1997‡‡		12.74	5.53	103½		108½	103½
[illegible]							

CURRENCIES AND MONEY

MARKETS REPORT

US dollar weakens over concern about yen policy

By Graham Bowley

The dollar weakened on the foreign exchanges yesterday amid growing uncertainty about the policy stance of the US and Japanese authorities towards the yen and the dollar.

Sterling recovered after Tuesday's decline caused by expectations of lower interest rates and slight signs of a split between the UK Treasury and the Bank of England.

The D-Mark found strong support against most currencies in spite of another set of weak economic data. Analysts said the Bundesbank was unlikely to cut interest rates at its regular council meeting today.

The French authorities cut the overnight call money rate by 1/8 percentage points to 3 5/8 per cent. Economists said this might signal a further cut in the official intervention rate.

The Belgian franc weakened. Some traders said its weakness was linked to declines in the Belgian and Dutch government bond markets which in turn were linked to rising expectations of an increase in Dutch interest rates.

The Australian dollar rose as it benefited from increased investment flows from Japan.

The dollar finished in London against the D-Mark at DM1.5248 from DM1.5233, and against the yen at Y110.125 from Y110.24.

Sterling closed at DM2.3683, from DM2.3637. It finished against the dollar at $1.5535, from $1.5517. Sterling's trade-weighted exchange rate index closed at 86.5 from 86.4 at the previous close.

■ With markets again quiet yesterday, attention turned to speculation about the US and Japanese authorities' attitude to the dollar's recent rally and about US interest rate policy.

The dollar's rally has begun to provoke comments from both Japan and the US, leaving currency markets uneasy about the direction the authorities might take the currency in next.

Remarks by Japanese officials have over the last few weeks left traders feeling that they may be unhappy with the speed at which the dollar has gained ground against the yen.

There are fears that a weak yen will lead to rising import price inflation, which may bring forward a potential interest rate tightening.

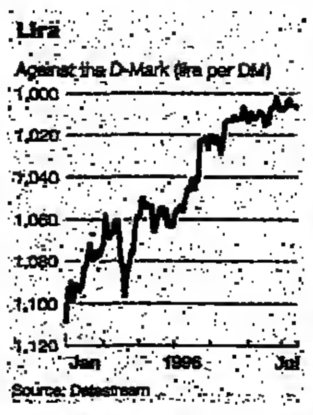
In addition, traders fear Japanese companies which have responded to the appreciation of the yen in recent years by shifting production overseas may now begin to lobby against a weaker yen since this leaves them at a disadvantage when they import goods back into the country.

■ Pound in New York

Jul 10	—Latest—	— Prev. close —
£ spot	1.5535	1.5495
1 mth	1.5531	1.5491
3 mth	1.5554	1.5484
1 yr	1.5550	1.5542

Lira

Against the D-Mark (lire per DM)



Source: Datastream

US companies on the other hand have begun to complain that the recent appreciation of the dollar against the yen may soon begin to hit exports.

Traders fear they may start to pressure the US government to reverse the dollar's rise.

"The US administration is not about to bow to the US corporate lobby but it does mean it is unlikely to pursue a stronger dollar policy," said Mr Paul Meggyesi, strategist at Deutsche Morgan Grenfell.

He said that as long as it remained unclear whether the US and Japanese governments were prepared to resist these pressures or not, there was scope for the dollar to head lower.

Mr Gerard Lyons, chief economist at DKB International in London, said: "The market is waiting to see some shake-out in the dollar against the yen, but even then there is still an upward bias for the dollar against the yen."

■ Speculation about US interest rate policy intensified as analysts attempted to predict what Mr Alan Greenspan, Federal Reserve chairman, might say at this month's Humphrey-Hawkins testimony.

Newspaper reports that some Fed committee members might argue against an interest rate rise even if growth did accelerate since stronger growth need not necessarily mean higher inflation added to the debate.

■ The pound recovered from its tumble on Tuesday. This followed criticism by Mr Kenneth Clarke, the chancellor, of Bank of England economic forecasts, which analysts said appeared to highlight a rift between the Bank and the Treasury.

The pound had also been undermined by the UK Treasury's summer economic forecast on Tuesday. This revised up the projection for government borrowing which therefore appeared to suggest the government would have to turn to lower interest rates if it was to meet its optimistic growth forecasts.

■ OTHER CURRENCIES

Jul 10	£	$
Czech Rp	42.3896 - 42.4002	27.2800 - 27.2900
Hungary	233.695 - 233.759	150.400 - 150.450
Iran	4661.40 - 4663.30	3000.00 - 3000.00
Kuwait	0.4656 - 0.4661	0.2999 - 0.3000
Poland	4.2302 - 4.2427	2.7285 - 2.7305
Russia	7947.21 - 7955.45	5117.00 - 5120.00
U.A.E.	5.7058 - 5.7071	3.6725 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Jul 10		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.6681	+0.0322	596 - 765	16.6767	16.6208	16.6399	2.2	16.5618	2.5	-	-	104.9
Belgium	(BFr)	48.7939	+0.1015	518 - 359	48.8360	48.6260	48.6899	2.3	48.5068	2.5	47.7189	2.2	106.4
Denmark	(DKr)	9.1242	+0.0189	196 - 288	9.1319	9.0905	9.1105	1.8	9.0801	1.6	8.9923	1.3	107.4
Finland	(FM)	7.2341	+0.0085	270 - 412	7.2480	7.2130	7.2297	0.7	7.2216	0.7	-	-	83.6
France	(FFr)	8.0161	+0.0196	132 - 189	8.0286	7.9944	8.0089	1.6	7.9811	1.7	7.8677	1.6	108.0
Germany	(DM)	2.3683	+0.0046	672 - 694	2.3729	2.3615	2.3638	2.3	2.3548	2.3	2.3181	2.1	108.3
Greece	(Dr)	371.935	+0.551	672 - 197	372.707	370.128	-	-	-	-	-	-	67.9
Ireland	(I£)	0.9748	-0.0003	742 - 754	0.9759	0.9730	0.9743	0.6	0.9731	0.7	0.9665	0.8	99.8
Italy	(L)	2394.14	+6.46	270 - 558	2397.11	2372.63	2398.09	-2.8	2409.54	-2.6	2452.04	-2.4	78.9
Luxembourg	(LFr)	48.7939	+0.1015	518 - 359	48.8360	48.6260	48.6899	2.3	48.5068	2.3	47.7189	2.2	106.4
Netherlands	(Fl)	2.6560	+0.0055	567 - 593	2.6618	2.6489	2.6510	2.3	2.6399	2.7	2.5922	2.5	108.5
Norway	(NKr)	10.1294	+0.0157	212 - 375	10.1432	10.0623	10.1209	1.0	10.1048	1.0	10.0004	1.1	98.5
Portugal	(Es)	243.503	+0.429	371 - 636	243.760	242.624	243.626	-2.1	244.833	-2.2	-	-	94.7
Spain	(Pta)	199.293	+0.317	139 - 365	199.378	198.737	199.513	-1.6	200.026	-1.6	201.428	-1.1	80.5
Sweden	(SKr)	10.3565	+0.012	468 - 563	10.1743	10.0426	10.3568	0.0	10.3566	0.0	-	-	86.1
Switzerland	(SFr)	1.9613	+0.0049	602 - 624	1.9625	1.9548	1.9589	3.1	1.9455	3.2	1.8973	3.3	110.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	88.5
Ecu	-	1.2503	+0.0022	497 - 508	1.2525	1.2470	1.249	1.2	1.248	1.4	1.2327	1.4	-
SDR†	-	1.07664	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5513	+0.0017	508 - 518	1.5532	1.5475	-	-	-	-	-	-	-
Brazil	(R$)	1.5618	+0.0022	613 - 625	1.5629	1.5554	-	-	-	-	-	-	-
Canada	(C$)	2.1262	+0.0011	253 - 270	2.1272	2.1170	2.1255	0.4	2.1218	0.5	2.1138	0.4	84.3
Mexico	(New Peso)	11.8319	-0.0223	238 - 400	11.8421	11.8223	-	-	-	-	-	-	-
USA	($)	1.5535	+0.0018	531 - 538	1.5598	1.5475	1.5532	0.2	1.5539	0.0	1.5581	-0.3	97.4
Pacific/Middle East/Africa													
Australia	(A$)	1.9487	-0.0107	450 - 485	1.9519	1.9380	1.9493	-1.8	1.9548	-1.8	1.9798	-1.7	94.8
Hong Kong	(HK$)	12.0226	+0.0124	181 - 261	12.0388	11.9777	12.0145	0.8	12.0026	0.7	11.8931	0.3	-
India	(Rs)	54.7392	+0.1395	362 - 822	55.0650	54.4320	-	-	-	-	-	-	-
Israel	(Shk)	4.9277	+0.005	229 - 324	4.9360	4.9139	-	-	-	-	-	-	-
Japan	(Y)	171.074	+0.014	986 - 151	171.480	170.490	170.848	5.1	168.859	5.2	162.444	5.0	132.8
Malaysia	(M$)	3.8702	+0.0033	685 - 718	3.8729	3.8587	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2957	-0.0002	535 - 578	2.2584	2.2502	2.2607	-2.7	2.2702	-2.6	2.304	-2.1	108.5
Philippines	(Peso)	40.6771	+0.0458	138 - 406	40.7755	40.6053	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8264	+0.0087	247 - 280	5.8280	5.8041	-	-	-	-	-	-	-
Singapore	(S$)	2.1958	+0.0032	945 - 971	2.1978	2.1880	-	-	-	-	-	-	-
South Africa	(R)	6.7280	+0.0052	226 - 334	6.7352	6.7088	-	-	-	-	-	-	-
South Korea	(Won)	1259.85	+2.58	825 - 044	1260.74	1254.49	-	-	-	-	-	-	-
Taiwan	(T$)	42.7978	-0.0139	103 - 849	42.8851	42.6350	-	-	-	-	-	-	-
Thailand	(Bt)	38.4810	+0.0523	585 - 054	38.5080	38.3270	-	-	-	-	-	-	-

1 Rates for Jul 9. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 10		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.7297	+0.0088	267 - 327	10.7450	10.7170	10.7102	2.2	10.6682	2.3	10.4947	2.3	104.7
Belgium	(BFr)	31.4100	+0.08	000 - 300	31.4400	31.3600	31.355	2.1	31.24	2.2	30.7	2.3	106.1
Denmark	(DKr)	5.8735	+0.0042	720 - 750	5.8818	5.8710	5.866	1.5	5.849	1.7	5.78	1.6	108.7
Finland	(FM)	4.6568	+0.0032	533 - 603	4.6675	4.6533	4.6503	1.7	4.6363	1.6	4.5928	1.4	82.9
France	(FFr)	5.1602	+0.0029	395 - 808	5.1705	5.1569	5.1532	1.8	5.139	1.6	5.0712	1.7	108.5
Germany	(DM)	1.5248	+0.0016	242 - 249	1.5276	1.5230	1.5221	2.0	1.5163	2.2	1.4891	2.4	107.7
Greece	(Dr)	239.425	+0.085	310 - 540	239.830	238.700	241.1	-8.4	244.45	-8.4	258.425	-7.9	67.4
Ireland	(I£)	1.5936	+0.0023	930 - 942	1.5955	1.5875	1.5941	-0.4	1.595	-0.4	1.5865	0.4	-
Italy	(L)	1534.74	+2.88	418 - 532	1536.75	1531.22	1539.49	-3.7	1547.84	-3.4	1570.29	-2.3	76.5
Luxembourg	(LFr)	31.4100	+0.08	000 - 300	31.4400	31.3600	31.357	2.0	31.2505	2.0	30.77	2.0	106.1
Netherlands	(Fl)	1.7110	+0.0016	108 - 114	1.7132	1.7101	1.7077	2.3	1.7008	2.4	1.6688	2.5	106.0
Norway	(NKr)	6.5205	+0.0028	180 - 243	6.5340	6.5120	6.5175	0.5	6.5121	0.5	6.4758	0.7	97.6
Portugal	(Es)	156.750	+0.1	700 - 800	156.860	156.600	157.085	-2.4	157.655	-2.4	159.6	-1.8	94.8
Spain	(Pta)	128.285	+0.05	220 - 310	128.370	128.210	128.515	-2.3	128.945	-2.1	130.485	-1.7	80.2
Sweden	(SKr)	6.6663	-0.0012	619 - 715	6.6874	6.6600	6.6779	-2.0	6.6993	-1.7	6.7373	-1.1	89.2
Switzerland	(SFr)	1.2626	+0.0018	621 - 630	1.2645	1.2611	1.2591	3.4	1.2516	3.5	1.2181	3.5	109.8
UK	(£)	1.5535	+0.0018	531 - 538	1.5598	1.5475	1.5532	0.2	1.5536	0.0	1.5581	-0.3	86.0
Ecu	-	1.2425	-0.0008	422 - 438	1.2429	1.2403	1.2432	-0.7	1.2449	-0.8	1.2537	-0.0	-
SDR†	-	0.68998	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	995 - 987	0.9999	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0055	+0.0003	053 - 056	1.0056	1.0053	-	-	-	-	-	-	-
Canada	(C$)	1.3687	-0.0006	684 - 689	1.3691	1.3671	1.3685	0.1	1.3689	0.0	1.3716	-0.2	83.5
Mexico	(New Peso)	7.6165	-0.023	130 - 200	7.6200	7.6130	7.778	-25.4	7.993	-18.2	8.7265	-27.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.3
Pacific/Middle East/Africa													
Australia	(A$)	1.2531	-0.0083	523 - 539	1.2583	1.2523	1.2551	-1.9	1.2586	-1.8	1.2773	-1.9	95.5
Hong Kong	(HK$)	7.7393	-0.0007	388 - 398	7.7398	7.7385	7.74	-0.1	7.7418	-0.1	7.7688	-0.4	-
India	(Rs)	35.2600	+0.05	500 - 500	35.4550	35.0600	35.4	-5.1	35.705	-5.2	37.175	-5.5	-
Israel	(Shk)	3.1721	-0.0004	697 - 744	3.1878	3.1697	-	-	-	-	-	-	-
Japan	(Y)	110.125	-0.115	100 - 150	110.330	109.860	109.66	4.8	108.78	4.9	105.04	4.6	133.2
Malaysia	(M$)	2.4913	-0.0007	908 - 918	2.4953	2.4905	2.4922	-0.4	2.4993	-1.1	2.5216	-1.2	-
New Zealand	(NZ$)	1.4520	-0.0017	510 - 531	1.4541	1.4510	1.4551	-2.8	1.4609	-2.5	1.4855	-2.3	-
Philippines	(Peso)	26.1850	-	500 - 200	26.2200	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	+0.0001	504 - 508	3.7509	3.7504	3.751	-0.1	3.7517	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4135	+0.0005	130 - 140	1.4140	1.4130	1.41	3.0	1.404	2.7	1.3785	2.5	-
South Africa	(R)	4.3310	-0.0015	285 - 335	4.3380	4.3285	4.3785	-13.2	4.4885	-12.7	4.806	-11.0	-
South Korea	(Won)	811.000	+0.75	800 - 200	811.500	810.800	-	-	-	-	-	-	-
Taiwan	(T$)	27.5500	-0.04	000 - 000	27.8000	27.5000	27.555	-0.2	27.58	-0.1	-	-	-
Thailand	(Bt)	25.4150	+0.005	050 - 250	25.4280	25.4000	25.5137	-4.7	25.7175	-4.8	26.6	-4.7	-

† SDR rate per $ for Jul 9. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 9: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

July 10	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3¼	3¼	3½	7.00	2.50	-
week ago	3⅜	3¼	3¼	3¼	3½	7.00	2.50	-
France	3⅝	3¾	3⅞	3⅞	4⅛	3.60	-	5.60
week ago	3⅝	3¾	3⅞	3⅞	4⅛	3.60	-	5.60
Germany	3¼	3¼	3⅜	3⅜	3⅝	4.50	2.50	3.30
week ago	3¼	3¼	3¼	3½	3¾	4.50	2.50	3.30
Ireland	5⅜	5⅝	5¼	5⅝	5¾	-	-	6.25
week ago	5¾	5⅝	5¼	5⅝	5⅞	-	-	6.25
Italy	9⅜	9⅛	8⅞	8⅝	8⅜	-	9.00	9.30
week ago	9¼	9⅛	8⅞	8⅝	8⅜	-	9.00	9.30
Netherlands	3⅜	2⅞	3⅛	3¼	3⅝	-	3.00	3.30
week ago	2⅞	2⅞	3	3⅛	3⅛	-	3.00	3.30
Switzerland	2⅞	2⅝	2⅝	2¾	2⅝	5.00	1.50	-
week ago	2¾	2⅝	2⅝	2¾	2¾	5.00	1.50	-
US	5⅜	5⅝	5¾	5⅞	6⅛	-	5.00	-
week ago	5⅝	5⅝	5⅝	5⅞	6⅛	-	5.00	-
Japan	½	½	½	½	1⅛	-	0.50	-
week ago	½	½	½	½	1	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5½	5⅞	5⅞	6⅛	-	-	-
week ago	-	5½	5⅞	5⅞	6⅜	-	-	-
US Dollar CDs	-	5.20	5.35	5.53	5.93	-	-	-
week ago	-	5.20	5.33	5.46	5.78	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅛	-	-	-
week ago	-	4⅛	4⅛	4⅛	4¼	-	-	-
SDR Linked Ds	-	3⅜	3⅞	3⅞	3⅞	-	-	-
week ago	-	3⅜	3⅞	3⅞	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.

Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 10	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅜ - 3⅛	3⅜ - 3⅛	3⅜ - 3¼	3½ - 3⅜	3⅝ - 3½	3⅞ - 3¾
Danish Krone	3⅞ - 3⅝	3⅞ - 3⅝	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 3⅞	4⅜ - 4¼
D-Mark	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅝ - 3½
Dutch Guilder	3¼ - 3⅛	3⅛ - 3	3⅛ - 3	3⅜ - 3¼	3⅜ - 3¼	3⅝ - 3½
French Franc	3⅞ - 3⅝	3⅞ - 3⅝	3⅞ - 3¾	3⅞ - 3¾	4 - 3⅞	4¼ - 4⅛
Portuguese Esc.	7½ - 7⅜	7⅝ - 7½	7⅝ - 7½	7⅝ - 7½	7⅜ - 7¼	7⅜ - 7¼
Spanish Peseta	7⅝ - 7⅜	7⅜ - 7¼	7⅜ - 7¼	7¼ - 7⅛	7⅜ - 7¼	7⅜ - 7¼
Sterling	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾	5⅞ - 5¾	5⅞ - 5¾
Swiss Franc	2⅝ - 2½	2½ - 2⅜	2⅝ - 2½	2⅝ - 2½	2⅞ - 2¾	3 - 2⅞
Can. Dollar	4⅜ - 4¼	4⅜ - 4¼	4⅝ - 4½	4⅞ - 4¾	5⅛ - 4⅞	5⅜ - 5¼
US Dollar	5¼ - 5	5¼ - 5	5½ - 5⅜	5⅝ - 5½	5⅞ - 5¾	6⅛ - 6
Italian Lira	9⅜ - 9¼	9¼ - 9⅛	9⅛ - 9	8¾ - 8⅝	8⅝ - 8½	8⅜ - 8¼
Yen	⅜ - ¼	½ - ⅜	½ - ⅜	⅝ - ½	⅝ - ½	⅞ - ¾
Asian $Sing	2⅝ - 2½	2⅞ - 2¾	3 - 2⅞	3⅜ - 3¼	3¼ - 3⅛	3⅜ - 3¼

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.02	95.02	+0.06	96.04	95.99	20,048	68,029
Dec	95.60	95.83	+0.08	95.85	95.79	0,598	44,655
Mar	95.58	95.57	+0.05	95.60	95.55	4,562	26,132

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.56	96.55	+0.01	96.57	96.54	27899	195455
Dec	96.37	96.38	+0.03	96.38	96.34	45597	208705
Mar	96.01	96.03	+0.05	96.05	95.99	33964	191254
Jun	95.64	95.65	+0.05	95.67	95.60	17237	112340

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	91.78	91.70	-0.06	91.82	91.64	22834	58654
Dec	92.10	92.14	-0.04	92.21	92.10	13482	35011
Mar	92.32	92.31	-0.01	92.36	92.29	3297	20872
Jun	92.33	92.30	+0.01	92.37	92.28	2208	11252

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	97.25	97.29	+0.06	97.32	97.25	5884	37863
Dec	97.07	97.10	+0.08	97.12	97.06	3981	22227
Mar	96.87	96.88	+0.05	96.92	96.87	629	9573
Jun	96.63	96.63	+0.05	96.63	96.61	170	1479

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	99.13	99.13	+0	99.13	99.13	66	na
Dec	96.75	98.75	+0.01	98.75	98.75	875	na
Mar		98.43	+0.01			0	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.57	95.58	+0.02	95.57	95.54	907	7572
Dec	95.43	95.42	+0.02	95.43	95.40	423	5077
Mar	95.18	95.18	+0.05	95.18	95.17	159	3085
Jun	94.88	94.89	+0.05	94.89	94.88	5	2350

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 10		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.70	16.43	4.853	1.988	4886	5.448	20.76	499.1	408.5	21.23	4.019	2.050	4.357	3.185	350.7	2.582
Denmark	(DKr)	53.47	10	8.786	2.595	1.069	2613	2.913	11.10	266.9	218.4	11.35	2.149	1.096	2.330	1.703	187.5	1.370
France	(FFr)	60.87	11.38	10	2.954	1.218	2974	3.318	12.64	303.8	248.6	12.92	2.448	1.248	2.652	1.939	213.4	1.559
Germany	(DM)	20.60	3.853	3.385	1	0.412	1007	1.122	4.276	102.8	84.16	4.375	0.828	0.422	0.898	0.656	72.28	0.528
Ireland	(I£)	50.04	9.358	8.222	2.429	1	2445	2.726	10.38	249.7	204.4	10.63	2.011	1.026	2.181	1.594	175.5	1.282
Italy	(L)	2.047	0.383	0.336	0.099	0.041	100.	0.111	0.425	10.21	8.360	0.435	0.082	0.042	0.089	0.065	7.177	0.052
Netherlands	(Fl)	18.36	3.433	3.016	0.891	0.367	896.9	1	3.811	91.61	74.98	3.898	0.738	0.376	0.800	0.585	64.37	0.470
Norway	(NKr)	48.16	9.007	7.813	2.338	0.962	2353	2.624	10	240.4	196.7	10.23	1.936	0.987	2.099	1.534	168.9	1.234
Portugal	(Es)	20.04	3.747	3.292	0.972	0.400	979.1	1.092	4.160	100.	81.85	4.255	0.805	0.411	0.873	0.638	70.27	0.513
Spain	(Pta)	24.48	4.578	4.022	1.188	0.489	1196	1.334	5.083	122.2	100.	5.198	0.984	0.502	1.067	0.780	85.85	0.627
Sweden	(SKr)	47.09	8.807	7.737	2.286	0.941	2301	2.566	9.778	235.0	192.4	10	1.893	0.965	2.052	1.500	165.2	1.207
Switzerland	(SFr)	24.88	4.653	4.088	1.208	0.497	1216	1.355	5.166	124.2	101.6	5.283	1	0.510	1.084	0.792	87.25	0.637
UK	(£)	48.79	9.124	8.016	2.368	0.975	2384	2.658	10.13	243.5	199.3	10.36	1.961	1	2.126	1.554	171.1	1.250
Canada	(C$)	22.95	4.292	3.770	1.114	0.459	1121	1.250	4.765	114.5	93.74	4.873	0.922	0.470	1	0.731	80.48	0.588
US	($)	31.40	5.871	5.158	1.524	0.627	1534	1.710	6.519	156.7	128.2	6.667	1.262	0.644	1.368	1	110.1	0.804
Japan	(Y)	28.52	5.333	4.685	1.384	0.570	1393	1.553	5.921	142.3	116.5	6.055	1.146	0.584	1.243	0.908	100.	0.731
Ecu		39.03	7.299	6.413	1.894	0.780	1907	2.126	8.104	194.8	159.4	8.288	1.569	0.800	1.701	1.243	136.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6581	0.6585	+0.0003	0.6588	0.6577	13,436	54,724
Dec	0.6621	0.6625	+0.0003	0.6625	0.6635	126	2,089
Mar	-	0.6665	-	-	-	23	311

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.9150	0.9165	+0.0009	0.9180	0.9134	15,586	78,952
Dec	0.9294	0.9285	+0.0011	0.9294	0.9285	642	3,733
Mar	-	0.9392	-	-	-	32	135

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.7954	0.7958	-0.0001	0.7966	0.7950	11,400	36,747
Dec	-	0.8020	+0.0003	0.8020	-	105	1,274
Mar	-	0.8062	-	-	-	37	85

■ STERLING FUTURES (IMM) $62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.5492	1.5498	-	1.5516	1.5470	10,330	57,869
Dec	-	1.5500	-0.0012	1.5520	1.5500	4	1,089
Mar	-	1.5530	-0.0002	1.5540	1.5530	1	e

UK INTEREST RATES

LONDON MONEY RATES

Jul 10	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5¾ - 4	5½ - 5⅜	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾	6⅛ - 5⅞
Sterling CDs	-	-	5¾ - 5⅝	5⅞ - 5⅝	5⅞ - 5¾	5⅞ - 5¾
Treasury Bills	-	-	5⅝ - 5⅝	5⅝ - 5½	-	-
Bank Bills	-	-	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5⅝	-
Local authority deps.	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	6 - 5⅞
Discount Market deps	5¾ - 5¼	5¾ - 5⅝	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Jul 5, 5.4817pc. ECGD fixed rate Stg. Export Finance. Make up day Jun 28, 1996. Agreed rate for period Jul 24, 1996 to Aug 25, 1996, Schemes II & III 7.20pc. Reference rate for period Jun 1, 1996 to Jun 28, 1996, Schemes IV & V 5.985pc. Finance House Base Rate 6pc from Jul 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.31	94.31	+0.02	94.32	94.30	8577	87138
Dec	94.21	94.23	+0.04	94.25	94.20	17120	88601
Mar	93.89	93.93	+0.07	93.95	93.88	12171	81588
Jun	93.44	93.48	+0.07	93.50	93.43	9205	44717
Sep	93.02	93.05	+0.06	93.08	93.00	3126	29116

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9425	0.13	0.18	0.12	0.07	0.21	0.50
9450	0.03	0.08	0.10	0.22	0.35	0.67
9475	0.01	0.03	0.05	0.45	0.55	0.87

Est. vol. total, Calls 5090 Puts 6717. Previous day's open int., Calls 128357 Puts 100841

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	Royal Bk of Scotland	5.75
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	●Singer & Friedlander	5.75
AIB Bank	5.75	Financial & Gen Bank	7.00	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	Scottish Widows Bank	5.75
Bank of Baroda	5.75	Girobank	5.75	TSB	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	United Bank of Kuwait	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Unity Trust Bank Plc	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Western Trust	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Whiteaway Laidlaw	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75	Yorkshire Bank	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Citibank NA	5.75	●Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	5.75	Meghraj Bank Ltd	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	• Mount Credit Corp	6.00		
Cyprus Popular Bank	5.75	NatWestminster	5.75		
		●Rea Brothers	5.75		

● Members of London Investment Banking Association

* In administration

EMS EUROPEAN CURRENCY UNIT RATES

Jul 10	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.085	-0.117	-0.87	2.15	e
Ireland	0.792214	0.789713	+0.000231	-0.32	1.58	2
Netherlands	2.15214	2.14889	-0.00059	-0.15	1.41	1
Belgium	39.3960	39.4514	+0.0086	0.14	1.12	-1
Germany	1.91007	1.91493	-0.00001	0.25	1.00	-3
Austria	13.4383	13.4761	-0.0008	0.28	0.98	-2
Portugal	195.792	196.808	-0.088	0.52	0.74	-3
France	6.40608	6.48361	+0.00034	1.21	0.05	-10
Denmark	7.28580	7.37761	-0.00185	1.26	0.00	-0
NON ERM MEMBERS						
Greece	292.867	300.897	+0.062	2.74	-1.44	-
Italy	2106.15	1926.12	+0.06	-8.45	10.81	-
UK	0.786652	0.810392	+0.00025	3.02	-1.71	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.520	2.81	3.01	3.27	0.03	0.17	0.43
1.530	1.86	2.27	2.54	0.04	0.38	0.69
1.540	0.91	1.58	1.95	0.10	0.69	1.04
1.550	0.22	1.03	1.41	0.30	1.12	1.51
1.560	0.06	0.62	0.96	1.04	1.71	2.15

Previous day's vol., Calls 4,614 Puts 2,756. Prev. day's open int., Calls 155,201 Puts 130,798

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.08	94.13	+0.05	94.13	94.08	54,799	406,622
Dec	93.73	93.80	+0.07	93.82	93.73	81,200	439,542
Mar	93.54	93.62	+0.09	93.64	93.54	61,916	288,042

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.62	94.65	+0.06	94.65	94.62	242	5,965
Dec	94.38	94.39	+0.06	94.41	94.38	89	1,568
Mar	-	94.17	+0.05	94.17	-	65	143

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
9650	0.06	0.09	0.12	0.10	0.01	0.04	0.07	0.24
9675	0	0.01	0.03	0.03	0.20	0.21	0.23	0.42
9700	0	0	0.01	0.01	0.45	0.45	0.46	0.65

Est. vol. total, Calls 4424 Puts 14602. Previous day's open int., Calls 283786 Puts 307074

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9700	0.05	0.06	0.08	0.26	0.45	0.70
9775	0.01	0.03	0.03	0.47	0.68	0.90

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 9150 Puts 4825

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9150	0.35	0.79	1.01	0.15	0.15	0.20
9175	0.20	0.61	0.82	0.26	0.22	0.26
9200	0.11	0.46	0.66	0.41	0.32	0.35

Est. vol. total, Calls 3180 Puts 2020. Previous day's open int., Calls 40002 Puts 19462

COMMODITIES AND AGRICULTURE

MARKET REPORT

Selling wave sends cocoa to 3½-month low

A heavy wave of speculative selling pounded London Commodity Exchange COCOA futures yesterday, sending nearby prices below $1,000 a tonne for the first time in three and a half months. The September delivery contract touched $996 a tonne before closing at $1,001, down $50, or 5 per cent, on the day.

The liquidation brought an abrupt end to the massive premium the contract had been commanding over forward positions.

LCE robusta COFFEE futures shook off early losses to end down but off fresh near six-month lows of $1,615 a tonne on strong New York prices and jitters over possible frosts in Brazil, traders said.

"London is jumpy. Everyone is wary about the second mass of cold air moving into Brazil. You have got to watch out but you can't get too hysterical about it," said one.

At the close the benchmark September contract was down $21 at $1,642.

Traders said both Brazilian and U.S. forecasters – who are sometimes at odds – were both forecasting increased frost risk for some Brazilian coffee areas.

Weather Services Corp said frosts would threaten southern Brazil by today, with lows of 34° to 37°F in northern Parana, south-west Sao Paulo and the higher elevations of northern Sao Paulo.

At the London Metal Exchange COPPER prices finished on the defensive after a bout of selling during after hours trading at the end of an otherwise featureless day.

Three month copper futures finished at $1,914, down $11 from Tuesday's afternoon kerb close but above the day's low at $1,900.

Floor traders noted bank selling during the morning session, which some linked with liquidation of outstanding Sumitomo long positions. As long as the company's position remained unclear, sentiment was likely to remain bearish, dealers added.

They said copper has the potential for one more sharp rally in the short to medium term after which new supply coming on stream would send the market lower again during the latter stages of the year.

NICKEL prices fell to six-month lows as speculative liquidation and weakness in copper again weighed on the market. The three months price has fallen sharply from its recent peak of $8,620 a tonne, hit on May 6. Traders attribute the retracement both to copper's heavy losses and weak physical demand during the past few months.

Compiled from Reuters

Snow and floods dash Romanian harvest hopes

The wheat crop is likely to be less than half last year's bumper level, writes Virginia Marsh

Romania, central Europe's most important agricultural producer after Poland, is heading for one of its worst wheat harvests in decades, dashing its hopes of cashing in on high international grain prices for the second year running.

The country had expected to harvest about 6m tonnes of wheat this year, down from 7.8m tonnes in 1995 because of a harsh winter. However, late spring snows followed by floods and heavy rain in recent weeks, mean it may now produce just 3m to 3.3m tonnes, according to the ministry of agriculture.

Last year's bumper crop, its biggest since 1989, had enabled the country to set aside a large quantity of grain for export for the first time since the beginning of market-led reforms, providing it with an extra source of badly-needed foreign exchange. Although some 1.2m tonnes of last year's surplus has already been sold abroad stocks are estimated at 2m tonnes and the country is not expected to face shortages. Further export tenders due this summer have now been cancelled.

The loss of much of the wheat crop is a significant setback for the agricultural sector, which had begun to recover from a severe post-communist recession, complicated by a serious drought in 1992, and the disruption caused by the break-up of farming co-operatives.

It is also a setback for the economy in general and will exacerbate the trade deficit in food and agricultural products, which last year was about $320m, in spite of the wheat exports.

Apart from Albania, Romania is more dependent on agriculture than any other country in the former Eastern bloc and reform of the sector is critical to its aspirations to join the European Union. Last year agriculture provided about 35 per cent of employment and 21.6 per cent of gross domestic product, compared with contributions to GDP of 6.1 per cent in Slovakia and Poland and of 3.3 per cent in the Czech Republic. Last year's 6.5 per cent increase in gross agricultural output was an important factor in the 6.9 per cent rise in Romania's GDP.

Because of land restitution Romanian agriculture is now overwhelmingly private, with state farms and companies providing just 13 per cent of last year's agricultural production.

The return of most farmland to more than 5m former owners or their descendants under a 1991 act is regarded as one of the country's most important post-communist reforms. It has, however, led to farmland being divided up into small, uneconomical plots – the average amount returned was just 2.2 hectares, often in three of four parcels of land.

> Last year agriculture provided about 35 per cent of employment in Romania and 21.6 per cent of GDP

Although cereal production recovered relatively quickly, the land and other reforms initially had a particularly negative impact on livestock production, with many small farmers lacking the resources to care for large numbers of animals. In addition many large state-run pig and poultry farms have faced severe financial difficulties, partly due to sharp increases in energy prices since 1989. Livestock production has begun to recover but its share of gross agricultural output has fallen from 45.6 per cent to about 39 per cent.

In the private agriculture sector such problems have been deepened by delays in giving farmers full title to their property and the absence of a land market. Only around 65 per cent of titles have been handed out so far, because of difficulties in measuring and recording the ownership of so many plots of land and the many disputes and counterclaims. Almost all have received preliminary papers, however, and most know which plots will eventually be theirs. This has enabled farmers to pool or lease land and form larger units, but those without titles cannot use their land for security against loans, restricting their ability to buy seeds, fertilisers and equipment.

The development of a land market has also been held up by restrictions in the 1991 law on the buying and selling of restituted land. The Romanian parliament is considering a follow-up law which would oblige farmers to sell their land holdings to co-owners, neighbours or those leasing the property in that order. If no buyer is found in these categories then a new national rural development agency would have the right to acquire the land.

However, one of the proposals is that the agency would pay a centrally-determined price for land, above its current market value which the government – a left-wing minority that faces general elections in November – considers too low. This could lead to the agency, to be funded by the cash-strapped state, being flooded with offers.

Agriculture already receives more direct state support than other parts of the economy with the sector due to receive 1,300bn lei ($430m) in subsidised credits this year – a huge amount in a country where the average wage is less than $100 a month.

Independent analysts, as well as the central bank, argued against the credits. As well as fueling inflation, the loans were generally granted too late to help with seed purchases and planting and thus substantially improve this years' crop. In the past, the subsidies have also benefitted most the small state farming sector as well as other state entities such as fertiliser manufacturers, rather than the private sector, given the difficulties of channelling loans to millions of farmers.

Analysts say that perhaps the biggest problem that remains is marketing and distribution. Until last year, in the grain sector, for example, this was handled by Romcereal, a state monopoly, which controlled storage and transport facilities and, in the absence of private competition, was able to dictate prices. This led to farmers being paid a fraction of world wheat prices. The government has been unwilling to break up such monopolies and loosen price controls and trade restrictions that still exist for many products, partly because of concern over food security. According to official statistics, 50 to 60 per cent of the average household's spending goes on food, making shortages or changes in prices of basic items like bread and milk a sensitive issue. The bulk of fruit and vegetable purchases are made in street markets where prices are free.

However, after Romcereal's financial difficulties last year and its inability to cope with the bumper crop, the government finally agreed to break it up into 41 companies, one for each county, although some of its assets have remained in a state agency. The World Bank and other advisers suggested dividing the company into even smaller units more easily able to compete with each other. However, the move is seen as a step in the right direction and the 41 companies are due to be privatised.

It is also hoped that the government will introduce a more stable and transparent trade regime and system of price controls. Mr Valeriu Tabara, the agriculture minister, said recently that the sector needed $20bn in investment to develop over the next decade. However, analysts say the frequent changes to import and export quotas and to tariffs, as well as the problems of land ownership, are deterring private investors.

Cominco group buys into Peruvian lead/zinc mine

By Robert Gibbens in Montreal

Cominco, the Canadian mining and metals group, has bought an indirect 12.7 per cent interest in Minera El Brocal, operator of the 2,100-tonne-a-day Colquijirca lead/zinc mina in Peru.

El Brocal also owns a potential open pit mine nearby with reserves of 70m tonnes averaging 7 per cent zinc and 2 per cent lead and another property with 50m tonnes averaging 1.8 per cent copper and suited to Cominco's hydrometallurgical treatment.

Cominco plans feasibility studies on both properties.

Aluminium smelter stocks fall

Total stocks of all forms of aluminium at western world smelters, excluding finished end-products, fell to 3.391m tonnes at the end of May 1996, compared with an upwardly-revised 3.508m in April and 3.779m in May 1995, provisional International Primary Aluminium Institute figures show, reports Reuters.

Unwrought metal stocks fell to 1.848m tonnes from 1.917m and 2.144m.

News of the drawdown, which took the total to the lowest level since March 1993, had little price impact on the market, traders said. The London Metal Exchange three months delivery price closed at $1,503.5 a tonne, up just $1.

"The market does not react the way it used to," one trader said. "It's just watching copper at the moment."

The stocks decline, the latest in a run stretching back to December 1995, was above some forecasts although there was a rise in LME warehouse stocks of some 36,000 tonnes in May indicating an element of stock re-distribution.

The producer stock fall followed a decline in LME stocks on Tuesday of 4,950 tonnes, which was an encouraging signal although analysts say consistent terminal market declines are needed to establish a trend.

Food Summit to tackle distribution

By Canute James in Kingston

The problems of distribution to low-income food deficient countries, and an increase in production to meet an expanding world population, will dominate the agenda of the World Food Summit planned for Rome in November, according to Mr Jacques Diouf, director general of the Food and Agriculture Organisation of tha United Nations.

At the summit, the FAO will be recommending an increase in the allocations of national budgets for investments in agriculture, with increased control of water so that food production is not dependent on the vagaries of the weather, Mr Diouf said in Barbados.

"There are 800m people facing starvation, 200m of whom are children under five. . . By 2030, the world population would have grown by 3bn to 8.7bn, and governments must now address food security."

The summit will coincide with a deterioration in global food supply. After a surplus for several years, the stock of cereals is at 12 per cent of total annual consumption, leading to a 75 per cent increase in prices, the FAO chief said.

The FAO will warn that improvements to global food security must not cause over-fishing and the pollution of surface and underground water resources, or soil erosion, Mr Diouf said.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1486-87	1503-504
Previous	1485-86	1502-03
High/low	1460	1504/1480
AM Official	1480-81	1496.5-97.5
Kerb close		1494-5
Open int.	238,163	
Total daily turnover	31,877	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1240-45	1276-80
Previous	1245-50	1280-85
High/low		1275
AM Official	1240-45	1277-79
Kerb close		1270-75
Open int.	5,438	
Total daily turnover	585	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	793-4	794-5
Previous	791-2	784-5
High/low		795/791
AM Official	793-94	793.5-94.0
Kerb close		791-92
Open int.	32,044	
Total daily turnover	6,367	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7405-15	7520-25
Previous	7475-85	7590-95
High/low	7435/7430	7570/7460
AM Official	7430-35	7550-55
Kerb close		7460-70
Open int.	41,993	
Total daily turnover	9,067	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6320-30	6365-70
Previous	6335-45	6385-90
High/low		6370/6330
AM Official	6300-10	6350-55
Kerb close		6350-60
Open int.	16,268	
Total daily turnover	8,137	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	998-99	1026-27
Previous	1005.5-6.5	1033-34
High/low		1029/1020
AM Official	1000-1000.5	1028-28.5
Kerb close		1020-21
Open int.	69,178	
Total daily turnover	13,328	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1985-90	1923-24
Previous	1976-83	1923-25
High/low	1985	1930/1900
AM Official	1984-85	1922-23
Kerb close		1912-13
Open int.	201,148	
Total daily turnover	61,206	

■ LME AM Official £/$ rate: 1.5500
LME Closing £/$ rate: 1.5535

Spot: 1.5505 3 mths: 1.5504 6 mths: 1.5522 9 mths: 1.5541

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	90.65	-1.30	92.60	90.50	690	4,056
Aug	90.20	-1.10	91.00	90.10	109	2,178
Sep	89.70	-1.10	91.48	88.40	4,576	19,143
Oct	89.30	-1.10	90.70	89.00	84	1,276
Nov	89.10	-1.00	90.30	89.00	93	1,086
Dec	88.75	-1.10	90.00	88.50	942	11,984
Total					7,135	56,146

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	382.90-383.20		
Opening	382.80-383.10		
Morning fix	383.40	247.227	484.234
Afternoon fix	383.00	246.683	483.461
Day's High	384.25-384.55		
Day's Low	382.50-382.80		
Previous close	382.70-383.10		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.20	6 months	4.05
2 months	4.20	12 months	4.00
3 months	4.15		

Silver Fix	p/troy oz.	US cts equiv.
Spot	330.30	512.00
3 months	334.70	516.60
6 months	338.60	525.30
1 year	347.20	539.90

Gold Coins	$ price	£ equiv.
Krugerrand	382.5-385.5	247-249
Maple Leaf	390.60-393.10	
New Sovereign	87-89	56-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	382.6	-0.1	-	-	10	10
Aug	383.4	-0.1	385.4	383.0	25,403	86,560
Oct	386.1	-0.1	388.5	386.4	193	7,550
Dec	388.7	-0.2	390.9	388.4	629	40,530
Feb	391.3	-0.2	393.3	391.8	427	8,859
Apr	393.9	-0.2	395.2	395.2	122	5,778
Total					27,993	187,471

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	391.0	-0.6	392.1	391.5	220	625
Oct	394.9	+0.1	396.8	394.0	2,407	21,415
Jan	397.6	+0.1	399.5	397.5	16	2,587
Apr	400.3	-	402.2	402.2	51	2,272
Jul	403.5	-	401.5	400.1	12	54
Total					2,434	26,963

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	132.85	-	133.50	132.70	258	6,790
Dec	133.85	-	135.00	134.50	12	967
Mar	134.85	-	-	-	-	12
Jun	136.00	-	135.00	135.00	-	107
Total					271	7,876

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	505.5	-0.2	511.0	505.0	32	187
Aug	508.8	-	-	-	-	-
Sep	511.5	-	518.0	509.0	12,724	57,257
Dec	519.0	-	526.5	517.5	509	22,357
Mar	528.2	-	526.5	526.5	234	6,277
May	533.5	-	-	-	-	5,409
Total					13,592	96,979

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	21.42	+0.01	21.74	21.38	35,612	84,487
Sep	20.72	+0.01	20.98	20.68	16,771	48,712
Oct	20.11	+0.06	20.23	20.02	35	36,317
Nov	19.64	+0.06	19.70	19.48	1,627	24,698
Dec	19.25	-	19.33	19.12	3,817	30,038
Jan	19.04	+0.03	19.06	18.83	1,669	22,286
Total					71,454	372,367

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	19.54	+0.01	19.75	19.54	14,479	32,972
Sep	19.05	+0.05	19.19	19.05	11,585	68,136
Oct	18.61	+0.07	18.75	18.61	2,511	23,887
Nov	18.29	+0.10	18.32	18.28	91	8,007
Dec	18.00	+0.11	18.02	17.90	860	14,622
Jan	17.72	+0.00	17.73	17.88	536	11,193
Total					30,310	172,760

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	55.35	+0.09	56.00	55.15	9,704	32,300
Sep	55.70	+0.10	56.30	55.45	5,881	13,904
Oct	56.00	+0.10	56.45	56.00	925	6,680
Nov	56.35	+0.05	56.70	56.35	991	7,424
Dec	56.70	+0.10	57.15	56.65	1,470	20,660
Jan	56.65	-	57.10	56.65	1,141	8,748
Total					20,950	103,663

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	176.75	+4.00	179.25	176.25	7,055	10,165
Aug	173.50	+2.75	174.50	172.25	8,047	19,092
Sep	171.50	+2.50	172.50	170.75	2,381	9,973
Oct	170.50	+2.00	171.50	170.25	558	3,636
Nov	170.00	+2.50	170.75	169.75	269	1,783
Dec	169.50	+2.00	170.00	169.25	609	8,920
Total					19,012	80,014

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	2.775	+0.036	2.730	2.706	18,075	39,111
Sep	2.805	+0.024	2.815	2.745	8,915	24,227
Oct	2.750	+0.011	2.755	2.710	5,165	20,238
Nov	2.745	+0.063	2.750	2.710	1,119	12,720
Dec	2.765	-0.036	2.770	2.740	1,489	15,612
Jan	2.760	-0.036	2.760	2.742	567	11,859
Total					36,978	163,234

■ UNLEADED GASOLINE
NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	62.40	+0.59	62.90	61.50	17,256	26,834
Sep	61.25	+0.34	61.80	61.15	6,046	11,642
Oct	58.60	+0.10	59.00	58.60	1,141	4,263
Nov	58.35	-0.40	56.35	56.35	173	1,717
Dec	55.80	+0.20	55.80	55.80	155	1,594
Jan	55.10	-	55.10	55.10	157	1,155
Total					25,070	48,175

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	111.75	+1.10	112.05	110.40	41	126
Sep	110.00	+0.10	110.10	110.00	18	395
Nov	111.85	-0.10	112.00	111.75	153	2,971
Jan	113.85	-	114.00	113.75	44	1,240
Mar	115.70	-0.15	116.00	115.85	18	407
May	117.85	-0.05	118.00	117.75	35	170
Total					316	5,325

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	491.25	-0.25	492.00	486.50	1,726	3,732
Sep'	492.00	+1.00	493.50	487.00	12,055	32,989
Dec	499.00	+2.00	499.50	492.50	10,422	28,083
Mar	497.25	+1.00	498.00	492.00	892	4,558
May	464.00	-	464.00	464.00	14	168
Jul	424.00	+3.75	424.00	419.50	129	1,958
Total					25,208	71,801

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	531.00	-6.00	535.50	530.00	5,438	8,723
Sep	408.25	+2.50	413.50	405.50	15,301	78,654
Dec	358.25	+1.00	360.50	358.75	34,459	175,782
Mar	364.50	+0.50	366.00	361.00	2,060	26,704
May	368.00	+0.75	368.00	365.00	898	5,641
Jul	368.00	-	368.00	364.00	250	8,139
Total					58,554	306,810

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	103.80	+0.70	103.60	103.00	-	100
Nov	105.85	+0.25	105.50	105.35	32	815
Jan	107.85	+0.25	107.25	107.25	3	197
Mar	110.00	+0.60	-	-	-	46
May	111.75	+0.25	112.00	112.00	20	7
Total					44	1,172

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	797.00	+17.25	799.00	780.50	2,720	4,557
Aug	792.00	+15.75	794.00	775.00	12,563	32,521
Sep	772.25	+13.75	773.00	757.00	1,110	11,188
Nov	757.00	+12.25	758.00	743.00	31,038	106,404
Jan	765.75	+12.25	766.00	751.00	653	8,270
Mar	772.50	+12.25	773.00	759.00	285	4,557
Total					48,961	178,597

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	25.10	+0.35	25.20	24.76	3,893	3,054
Aug	25.27	+0.36	25.35	24.88	7,368	21,379
Sep	25.47	+0.29	25.55	25.07	2,361	13,490
Oct	25.65	+0.28	25.75	25.27	808	7,458
Dec	26.05	+0.33	26.13	25.66	6,665	30,631
Jan	26.20	+0.34	26.30	25.85	310	2,593
Total					21,804	82,330

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	248.1	+3.3	248.2	244.0	2,174	7,654
Aug	246.0	+3.5	247.0	242.9	8,974	22,130
Sep	244.9	+3.6	245.6	240.8	1,331	10,939
Oct	241.0	+3.9	241.5	236.7	487	5,900
Dec	238.8	+3.7	239.7	234.1	6,019	23,836
Jan	239.4	+4.3	239.5	237.6	72	2,985
Total					17,253	78,978

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	85.0	-	-	-	-	-
Mar	110.0	-	-	-	-	-
Apr	128.0	+4.2	128.5	124.0	58	1,309
May	143.0	+3.0	-	-	-	3
Jun	162.5	-	-	-	-	-
Total					58	1,312

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1093	+5	1095	1081	117	1,845
Aug	1090	+15	1090	1070	77	694
Sep	1125	+12	1130	1115	93	156
Oct	1220	+10	1220	1205	162	1,543
Jan	1228	-6	1235	1235	1	274
Apr	1230	-20	1234	1230	15	115
Total					364	4,448

	Close	Prev
BFI	1124	1136

FUTURES DATA
All futures data supplied by CMS.

Nuts and Seeds
Prices from Kenkko Group; US$ a tonne. Iranian pistachios 28/30 raw (in shell) naturally opened (round); 1995 crop 3,300 CFR/FOT MEP, steady. US almonds (shelled): New crop of 530m lb will be of average yield, with nonpareil variety under 50%; very little carryover from 1995 crop expected: 23/25 NPSSR AOL 5,975, shipment first half September, 5,775 shipment end-September/October; 18/20 5,806 shipment end-Sept/Oct; standard 5% 5,355 shipment Sept/Oct – all FAS California. US walnuts LHP 20% – 1995 crop 5,600 FAS California; new crop 5,091 September/October shipment. Indian cashews raw: W-320, 6,000 spot Europe – firming slightly; from origin at 5,950 CFR India for second half of 1996. Turkish hazelnut kernels, 13/15 standard 1s, 1995 crop, 2,850 FOB MEP, up slightly; new crop at 2,800 FOB MEP.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	980	-55	1012	968	247	674
Sep	1001	-50	1042	998	3,421	42,932
Dec	1016	-20	1033	1011	3,156	42,809
Mar	1030	-14	1042	1026	1,987	35,492
May	1040	-14	1050	1039	442	20,180
Jul	1051	-14	1060	1050	168	11,617
Total					9,592	168,788

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1340	-35	1355	1340	36	135
Sep	1366	-20	1396	1361	4,628	31,186
Dec	1417	-19	1426	1414	867	15,903
Mar	1439	-17	1445	1438	710	15,061
May	1458	-12	1460	1460	1	6,577
Jul	1466	-9	1465	1465	1	5,902
Total					6,249	81,905

■ COCOA (ICCO) (SDR's/tonne)

Jul 9	Price	Prev.day
Daily	1062.70	1073.32

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1643	-21	1650	1620	263	965
Sep	1643	-20	1655	1613	2,427	17,458
Nov	1580	-32	1609	1572	1,236	5,481
Jan	1538	-36	1566	1540	376	3,231
Mar	1524	-32	1530	1510	68	1,560
May	1511	-30	1520	1509	14	201
Total					4,364	28,927

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	121.00	-1.05	122.75	120.25	368	603
Sep	116.05	+1.00	116.60	114.40	8,278	15,244
Dec	111.35	+1.55	112.00	110.50	1,755	5,144
Mar	108.95	+1.60	109.50	108.75	255	2,051
May	108.30	+1.80	108.30	108.30	22	413
Jul	167.25	+1.00	110.00	110.00	4	144
Total					10,686	23,857

■ COFFEE (ICO) (US cents/pound)

Jul 8	Price	Prev.day
Comp. daily	103.57	105.09
15 day average	106.62	106.76

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	370.0	-9.9	379.9	369.0	1,704	3,963
Oct	352.8	-2.3	355.1	352.1	792	9,729
Dec	344.2	-0.4	344.9	342.4	436	3,825
Mar	339.4	+0.4	339.1	337.0	415	4,252
May	336.7	+0.2	337.0	334.0	274	2,233
Aug	334.2	-0.7	335.0	332.5	121	775
Total					3,788	24,967

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	11.64	-0.03	11.65	11.44	7,258	71,324
Mar	11.24	-	11.25	11.10	2,839	36,913
May	10.91	+0.01	10.91	10.80	1,430	14,889
Jul	10.63	+0.01	10.66	10.56	243	11,573
Oct	10.41	+0.04	10.42	10.36	150	5,038
Mar	10.25	+0.03	10.25	10.20	0	532
Total					11,921	140,375

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	71.98	+1.38	71.40	70.70	82	355
Oct	72.08	-1.75	73.15	72.00	1,009	7,762
Dec	72.75	-1.61	73.55	72.70	5,785	33,799
Mar	74.38	-1.32	74.90	74.25	401	7,316
May	75.35	-1.25	75.75	75.15	165	5,137
Jul	76.05	-1.30	76.75	76.15	189	3,785
Total					7,601	61,742

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	121.50	-3.25	124.00	121.00	334	710
Sep	117.98	-4.10	121.25	117.00	670	10,292
Nov	115.70	-3.30	118.60	115.55	508	2,557
Jan	115.00	-2.00	116.75	114.80	180	3,856
Mar	117.15	-1.05	118.75	117.00	56	343
May	118.45	-1.65	120.00	120.00	8	203
Total					1,727	18,236

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jul 10	Jul 9	month ago	year ago
1991.9	2002.8	2095.6	2266.7

■ CRB Futures (Base: 1967=100)

Jul 9	Jul 8	month ago	year ago
250.12	249.29	na	na

■ GSCI Spot (Base: 1970=100)

Jul 9	Jul 8	month ago	year ago
207.46	207.57	204.47	171.65

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	67.850	+0.575	67.850	67.250	4,880	34,686
Oct	69.675	+0.55	69.700	69.175	3,809	27,684
Dec	68.925	+0.45	68.950	68.525	1,728	12,995
Feb	65.300	+0.4	65.375	64.925	507	12,486
Apr	67.550	+0.475	67.600	67.025	450	4,148
Jun	66.500	+0.425	66.500	66.100	184	1,542
Total						

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	58.200	-0.25	58.500	57.525	1,686	3,446
Aug	55.725	+0.025	55.925	55.200	3,954	12,317
Oct	52.800	+0.125	53.000	52.350	2,677	8,573
Dec	55.075	+0.2	55.100	54.475	688	7,468
Feb	77.025	-	77.175	76.600	147	2,201
Apr	73.200	+0.225	75.250	74.500	52	609
Total						

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	83.400	+2	83.400	82.000	758	1,514
Aug	80.300	+2	80.300	78.900	2,105	3,528
Feb	80.225	+1.2	80.500	79.300	378	1,146
Mar	80.700	+1	80.300	80.250	15	60
May	81.475	+0.5	80.750	80.500	0	69
Total						

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
1400	90	134	e	22
1500	28	72	44	68
1600	0	34	120	117
■ COPPER (Grade A) LME	**Sep**	**Dec**	**Sep**	**Dec**
1050	183	189	53	101
1900	125	140	94	149
2000	81	181	149	206
■ COFFEE LCE	**Sep**	**Nov**	**Sep**	**Nov**
1650	76	106	103	168
1700	51	91	133	201
1750	44	77	167	237
■ COCOA LCE	**Sep**	**Dec**	**Sep**	**Dec**
1000	32	77	31	59
1025	22	65	46	72
1050	15	55	64	87
■ BRENT CRUDE IPE	**Aug**	**Sep**	**Aug**	**Sep**
1800	62	62	1	48
1850	21	42	10	-
2000	4	23	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

		+or-
Dubai	$17.86-7.95	
Brent Blend (dated)	$19.80-9.82	+0.100
Brent Blend (Aug)	$19.58-9.60	+0.130
W.T.I.	$21.46-1.48w	+0.160

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$215-217	
Gas Oil	$182-183	+6
Heavy Fuel Oil	$87-89	
Naphtha	$186-188	+1.0
Jet fuel	$200-202	+2.5
Diesel	$181-182	+2

■ NATURAL GAS (Pence/therm)

Bacton (Aug)	13.30-13.70	

Petroleum Argus. Tel. London (0171) 359 8792

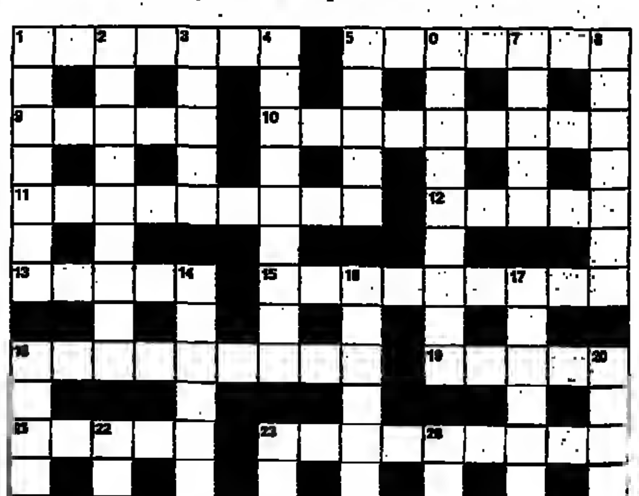
■ OTHER

Gold (per troy oz)♣	$383.05	+0.15
Silver (per troy oz)♣	510.00c	-1.50
Platinum (per troy oz.)	$391.75	+1.25
Palladium (per troy oz.)	$131.25	+1.25
Copper	95.0	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.51r	-0.09
Tin (New York)	295.50	-2.00
Cattle (live weight)	100.78p	+0.81*
Sheep (live weight)	117.71p	+1.00*
Pigs (live weight)†	120.80p	+0.86*
Lon. day sugar (raw)	$317.40	-0.5
Lon. day sugar (wte)	$384.60	-3.5
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Aug)♥	91.50p	
Rubber (Sep)♥	91.50p	
Rubber (KL RSS No1)	334.00m	-1.50
Coconut Oil (Phil)§	790.0w	-25.0
Palm Oil (Malay.)§	$472.5z	+2.5
Copra (Phil)§	$525.0w	
Soyabeans (US)	213.0	+2.0
Cotton Outlook 'A' Index	80.25c	+0.60
Wooltops (64s Super)	430p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Aug. w Jul/Aug. z Jul/Sep ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,256 head of pigs sold.

CROSSWORD

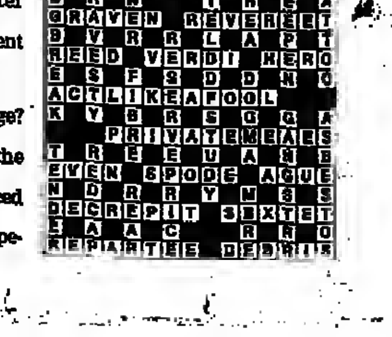
No.9,117 Set by ADAMANT



ACROSS
1 Bar the Leghorns, for example, accepting first Wyandotte (7)
5 Subordinate theme (7)
9 Extremist leaders united Liberals to resist autocracy (5)
10 For Americans, however, it's most stupid (9)
11 Reckless legislature half redevelops the centre (4-5)
12 Deliveries of outsize coat for retiring minister (5)
13 Arrive at a stretch of the river (5)
15 OK Sam! What wretched weapons? (9)
18 Friend swallowed the story (not new!) supposedly (9)
19 Run into numb fear (5)
21 Cancel the credit in the loan (5)
23 Women with the airs, we are told, of the French monarchy (9)
25 Someone in charge initially arranged to save money (9)
26 It comes back to the Teutonic beast (5)
27 Is extremely friendly after short day, please (7)
28 Shows respect for instrument carried by crack troops (7)

DOWN
1 Clean up on the exchange? (7)
2 Deluge after change in the boundary (9)
3 In the end the city produced the animal (5)
4 Had a mouth-watering experience (9)
5 Play for time at the booth (5)
6 Promised the union the debtor would sort things out (9)
7 Chosen from the literature of the world (5)
8 Those who believe in the gold medal winners? (7)
14 Intellectuals, having got drunk, squabble among the books (9)
16 Is a New York district allowed to provide flower girls? (3,6)
17 Small piece on Tuesday evening, maybe (9)
18 Replies to a news broadcast on the Royal Society (7)
20 Wants dress that is remodelled (7)
22 Sort out setting for duck perch (5)
23 Cleaner paper (5)
24 Nothing in tha mess left in, we hear (5)

Solution 9,116



FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda

Prices for dealing July 10

Jupiter Tyndall (Bermuda) Ltd

PO Box HM1266, Hamilton, Bermuda 001 809 292 2780

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Lloyds Intl Money Market Fund Ltd

Dealing daily

M & G (Guernsey) Ltd

Westbourne, The Grange, St Peter Port 01481 722893

Prudential Fund Managers (Guernsey) Ltd

Po Box 51, St Peter Port Guernsey 01481 707000

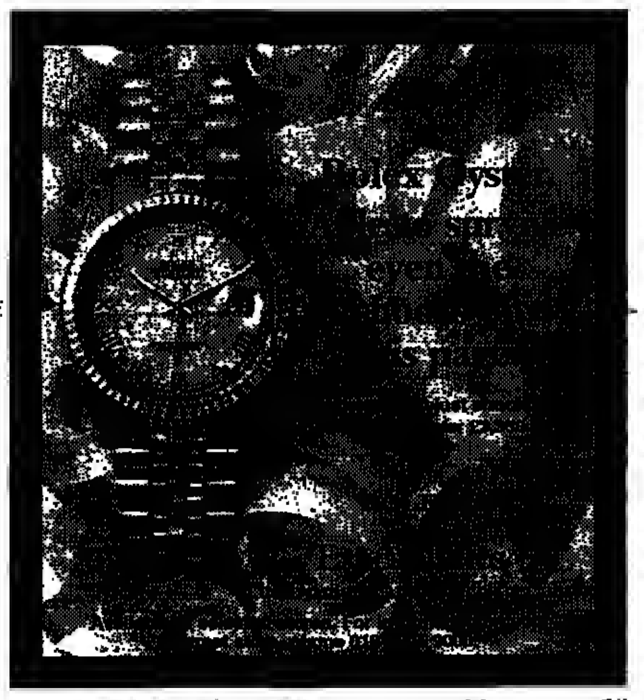
Rothschild Asset Management (CI) Ltd

PO Box 242, St Peter Port, Guernsey

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)



ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

FT MANAGED FUNDS SERVICE

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

هكذا من الأصل

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Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£28½	—	£34½	£28½	1,904	2.8	Φ
Barlow	‡†	[illegible]	—	[illegible]	[illegible]	1,358	2.0	-
Gold Flds Prop R		124xd	—	170	124	72.7	7.2	9.3
[illegible] Props.		75	—	95	75	3.01	12.7	-
SASOL	♥	688	—	719	475	3,911	1.7	-
SA Brews		£18½	—	£20½	£17¾	5,549	2.0	Φ
Standard Bank		£25½	+¾	£32½	£20¼	3,045	1.5	20.9
Tiger Oats	†	915xd	+5	1270	805	1,378	1.9	18.0
Tongaat-Hulett		813xd	—	1247	729	769.6	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.

q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Dividend is paid in whole or part as a

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1250 a year for each security shown, subject to the Editor's discretion

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Call 0171 873 4378 for more information on FT Cityline.
For readers phoning from outside UK, please dial +44 in place of the first 0.
The share prices printed on these pages are also available on the internet at www.FT.com.

LONDON STOCK EXCHANGE

MARKET REPORT

UK equities ignore early sell-off on Wall Street

By Steve Thompson, UK Stock Market Editor

UK shares successfully fought off the effects of a weak opening by Wall Street and managed to end the session with good gains across the leading issues, still sustained by hopes of a further reduction in UK interest rates before the next general election.

The bullish feeling about domestic interest rates continued to filter through from Wednesday's summer ecoomic bulletin issued by the UK Treasury. That showed a downwards revision of gross domestic product growth and an increase in the current year's public sector borrowing requirement.

The FT-SE 100 index ended the session a net 13.5 higher at 3,765.8, some 5 points above its level before the 115-point sell-off on Wall Street last Friday evening.

There was no real enthusiasm surrounding the market's second-liners, where the FT-SE Mid 250 index showed a 4.6 gain at 4,352.3.

London dealers acknowledged the market's resilience in the face of Wall Street's latest jittery performance, which came in the wake of a steep slide in Motorola shares. They dropped 20 per cent shortly after the New York opening following poor second-quarter figures, released late on Tuesday.

"The market feels fine at the moment, but that is not to say we will not mirror any further bouts of weakness on Wall Street," was the view of one head trader.

Another senior dealer, at one of the European securities houses, said the performance of global equities would be determined by bonds, which maintained their recent good showing.

Treasury bonds were around a quarter of a point higher not long after US markets opened yesterday, while gilts made steady, if sedate, progress during the day.

The Dow Jones Industrial Average, burdened by the retreat in technology stocks, was down more than 20 points within minutes of the start of trading in the US and off 35 points an hour after London closed.

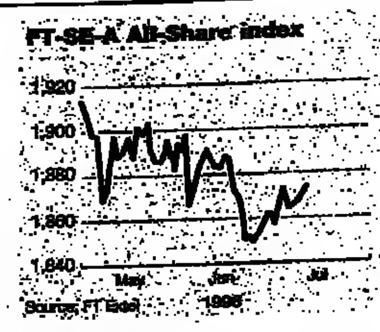
The real disappointment for traders came in the continuing low level of genuine activity. Turnover at 6pm was 725.9m shares, with non-FT-SE 100 issues accounting for around 55 per cent of that figure.

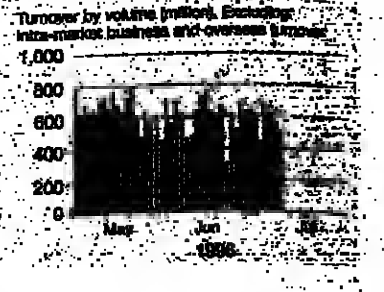
Volume was inflated by 58m shares traded in Graystone, one of the penny stocks. But there was some aggressive two-way trading in a number of the large-capitalisation stocks, in which the institutions hold substantial stakes.

Hanson was a case in point, with in excess of 36m shares changing hands as the big argument over valuations pre- and post-demerger continued to rage. The conglomerate's shares drifted back again as the market fretted over the possibility of big US shareholdings being sold into an unwilling market.

The cellular phone stocks were also heavily traded, and weakened in the light of Motorola's results.

Dixons, the high street retailer, was the best performer in the FT-SE 100 after delighting the market with a 20 per cent increase in the dividend total, while GKN, the engineering group, was given a lift by Merrill Lynch, the US brokerage, whose global legions of salesmen marketed a big buy story.





Indices and ratios

FT-SE 100	3765.8	+13.5	FT Ordinary index	2768.2	+12.4
FT-SE Mid 250	4352.3	+4.6	FT-SE-A Non Fins p/e	16.88	16.95
FT-SE-A 350	1892.3	+5.8	FT-SE100 Fut Sep	3784.0	+13.0
FT-SE-A All-Share	1874.21	+5.02	10 yr Gilt yield	7.89	7.88
FT-SE-A All-Share yield	3.83	3.84	Long gilt/equity yld ratio:	2.16	2.16

Best performing sectors

1. Life Assurance +1.3
2. Paper, Pckg & Printing +1.2
3. Telecommunications +0.9
4. Engineering: Vehicles +0.9
5. Insurance +0.8

Worst performing sectors

1. Tobacco -0.9
2. Building Mtls & Merchs -0.6
3. Leisure & Hotels -0.5
4. Building & Construction -0.5
5. Banks: Merchant -0.4

Broker move hits Hanson

A bearish note from NatWest Securities sparked a bruising tug of sentiment at top conglomerate Hanson and turnover in the stock jumped to 36m shares.

The broker reiterated "reduce" advice to clients and lowered its trading valuation for the shares to 153p. This compares with valuations of 200p and above by some leading brokers.

The stock, which has lagged behind the market by 20 per cent sioce demerger plans were announced in January, finished the day 2¼ lower at 169p, where the yield is now pressed right up against the 9 per cent level.

There were also worries yesterday that, given Wall Street's recent wobbles, the continued drain on sentiment could shortly destabilise Hanson's US shareholder base. This extends to some 30 per cent of the company.

NatWest's valuation downgrade stems from weak trading and cashflow, a fall in UK electricity valuations and a rising tax charge at chemicals group Quantum.

The Hanson selling sparked suggestions of switching into Tomkins, which moved forward 7 to 265p in turnover of 5.4m, making a three-day gain of more than 6 per cent.

The market's blue touch paper was lit by an intriguing statement from Shell Transport early yesterday.

The company said it would make an announcement concerning its chemicals business at 3pm. It has been known for some time that Shell is seeking to address problems in its chemicals operations and the statement led to a flurry of speculation that encompassed heavy cost-cutting and the possible demerger of the whole chemicals arm. There was also talk of a significant deal with BASF, of Germany.

The shares shot forward to record a gain of more than 18p, at that point the biggest rise in the Footsie. However, the announcement that Shell had signed a non-binding letter of intent to form a worldwide petroleum additives joint venture with Exxon Chemicals proved disappointing. The stock slipped back to finish only 5½ ahead at 943p after snbstantial volume of more than 8m shares.

Mr John Toalster of SGST commented: "This is a useful development bnt it is not major. It only represents 5 per cent of Shell Chemicals' turnover last year."

Merrill Lynch issued a hard-hitting buy note on engineering leader GKN and the stock advanced 28 to an all-time high of 1033p.

Merrill, a long term buyer of the stock, expects strong results next month when the interim figures emerge, and moots the possibility of profit upgrades later in the year.

It predicts positive news flow on orders, notably from Westland, and argues that GKN is now more than ever a strongly contra-cyclical, core holding.

The broker also reminds clients that GKN has had a share split under consideration for some time. "With the stock comfortably above £10, this could happen at any moment," said Merrill analyst Mr Adam Collins.

GKN is relatively tightly held, and yesterday's 1.4m turnover was well above average. A share split is seen as making the stock more marketable and less volatile.

A drop in second-quarter profits from Motorola, the US high-tech giant, which partly blamed poor mobile phone handset trading for its slack earnings onttum, hit sentiment at Vodafone and Orange.

Combined volume for the two was 38m shares, with Vodafone off a penny at 236½p and Orange down 2½ at 204p.

BT continued to rebound. The shares spiked higher once Wall Street started trading, and the stock closed 6½ up at 351p in 8.4m traded.

Takeover speculation combined with a broker recommendation to push **East Midland Electricity** 15 higher to 570p.

One of the company's own brokers, ABN Amro Hoare Govett, reiterated its buy note on the stock, arguing that it was cheap at current levels and could rise 10 per cent from yesterday's opening price. Additionally, Hoare highlighted the company's fundamental attractions, with or without a corporate approach.

However, there was also a return of bid hopes, which focused on Houston Industries, of the US, making an offer. East Midland said it had not received a bid.

General Accident and Commercial Union rose 7 to 642p and 4 to 567p respectively as Merrill Lynch reiterated its buy stance on the two stocks. Analyst Mr Steven Bird said the two companies had the strongest life operations in the sector. The broker also raised its recommendation on the composite sector as a whole to "neutral" from "underweight".

Leisure group **Rank Organisation** was the worst performer in the Footsie yesterday, falling 11 to 482p as the stock reacted to a profits downgrade from ABN Amro Hoare Govett.

The broker said the stock is "overvalued" and published a detailed note designed to preempt the results of the strategic review, dne to be announced next month along with interim figures. Hoare downgraded current year profit expectations by £18m to £453m.

Dixons rose 14½p to 530p following annual results at the higher end of forecasts.

Analysts were impressed by sales for the first 10 weeks of the current year. Several upgraded forecasts, with Panmure Gordon, for example, increasing its estimate from £162m to £180m, excluding property disposals.

Kingfisher improved 6 to 641p on the back of Dixons' figures. The group has also impressed analysts with a presentation on plans for Christmas.

Analysts were not impressed by Storehouse, which said at its annual meeting that gross margins were being maintained, not improved. Storehouse fell 6 to 315p.

Building materials leader Wolseley closed at the bottom end of the Footsie rankings with a decline of more than 2 per cent. The shares came off 10 at 442p, but volume was modest and traders said there were no obvious stories in circulation.

The group meets analysts for a trading round-up early next month, and recent feedback from the sector suggests that trading is proceeding smoothly enough. But Wolseley gets 40 per cent of operating profits from North America where some analysts fear a rise in interest rates.

In contrast, Redland, with its broad exposure to Germany, added 6 to 415p ahead of next week's round of half-year trading updates.

Laporte, the speciality chemicals group, added 9 at 709p after raising £23.5m through disposals.

BSkyB rose another 5 to 473p as it was revealed that Kirch, of Germany, is interested in taking a stake in the satellite broadcaster.

Kirch and BSkyB announced plans earlier this week for a digital pay television alliance in Germany.

Glaxo Wellcome appreciated 12 to 891p on positive reports coming out of the Aids conference in Vancouver that the company is close to marketing its own triple Aids therapy.

MARKET REPORTERS:
Peter John, Joel Kibazo, Jeffrey Brown, Lisa Wood.

FINANCIAL TIMES EQUITY INDICES

	Jul 10	Jul 9	Jul 8	Jul 5	Jul 4	Yr ago	*High	*Low
Ordinary Share	2768.2	2755.8	2746.3	2743.9	2761.4	2582.9	2866.2	2696.7
Ord. div. yield	4.02	4.05	4.06	4.07	4.04	4.12	4.12	3.76
P/E ratio net	16.40	16.30	16.25	16.22	16.31	16.17	17.25	15.96
P/E ratio nil	16.30	16.20	16.15	16.13	16.22	15.92	17.03	15.76

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2757.5	2764.5	2768.2	2765.0	2767.0	2769.0	2771.1	2768.1	2767.8	2771.2	2757.5

	Jul 10	Jul 9	Jul 8	Jul 6	Jul 4	Yr ago
SEAQ bargains	28,145	29,123	32,026	30,885	27,742	24,818
Equity turnover (£m)†	-	1623.5	1389.1	1736.6	1708.2	1589
Equity bargains†	-	35,188	36,586	37,405	35,248	36,933
Shares traded (ml)†	-	576.0	515.1	577.1	624.2	601.1

†Excluding intra-market business and overseas turnover.

	Jul 10	Jul 9	Jul 8	Jul 5	Jul 4	Yr ago	*High	*Low
FT-SE AIM	1075.10	1077.10	1079.20	1086.20	1081.50	-	1140.40	985.70

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	633	Total Highs	81	Total contracts	48,207
Total Falls	564	Total Lows	41	Calls	24,706
Same	1,523			Puts	23,501

July 10 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3767.0	3784.0	+13.0	3772.0	3752.0	11346	57144
Dec	3780.0	3794.5	+13.6	3781.0	3779.0	141	1511

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4280.0	4353.0	+3.0	4280.0	4280.0	16	[illegible]

■ FT-SE 100 INDEX OPTION (LIFFE) (3766) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 4,826 Puts 4,923 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock
§120	F.P.	13.6	136	132	AFA Systems
*	F.P.	867.2	£19⅜	£18⅞	Alumax
§170	F.P.	19.6	185	180	†Circle Comms
§122	F.P.	29.1	140	133	†Ciqual
§	F.P.	104.6	221	208	City Technology
*	F.P.	8.94	19	15	Concurrent Techn
§4	F.P.	3.07	4	4	†Drings of Bath
-	F.P.	25.9	21	17	†Gold Mn Sardinia
-	F.P.	5.89	12	5	†Gold Sard Wts
-	F.P.	19.9	95	65	†Independent Br H
94	F.P.	19.0	88	71	†Intelligent Envs
175	F.P.	301.8	193	169	Jarvis Hotels
-	F.P.	2.51	125	110	†Matrix Hlthcare
-	F.P.	1.32	18	18	NECA
172	F.P.	407.4	227	172	Pace Micro Tech
§3	F.P.	7.65	3¾	3½	†Pordum Foods
-	F.P.	0.33	1½	1½	†Pordum Foods Wts
140	F.P.	20.9	172	164	†Sinclair M'rose
80	F.P.	5.38	91	86	†Solid State Sppl
225	F.P.	31.7	289	225	†Staffware
-	F.P.	1,227	243	218	Sun Life & Prov
95	F.P.	36.3	123	113	Vocalis Group
-	F.P.	23.5	163	148	†Whittard of Chls

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Jul 8	% chg on day	Jul 5	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	2110.87	+1.7	2076.11	1999.82	1.46	-	2929.73	1722.93
■ Regional Indices								
Africa (13)	2873.50	+0.6	2856.20	2707.49	2.53	39.00	3553.85	2272.74
Australasia (7)	2269.73	-1.5	2304.43	2314.43	2.66	21.17	2927.34	2142.75
North America (12)	1875.32	+2.8	1824.26	1753.57	0.74	68.70	2385.39	1499.94

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FT - SE Actuaries Share Indices — The UK Series

	Jul 10	Day's chge%	Jul 9	Jul 8	Jul 5	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3765.8	+0.4	3752.3	3741.5	3743.2	3430.8	4.03	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	4352.3	+0.1	4347.7	4339.5	4367.2	3755.0	3.42	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250 ex Inv Trusts	4389.2	+0.1	4386.6	4379.8	4406.9	3760.1	3.51	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	1892.3	+0.3	1886.5	1881.5	1884.8	1711.4	3.90	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350 Higher Yield	1811.7	+0.4	1804.3	1798.5	1800.5	1711.7	5.23	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350 Lower Yield	1980.1	+0.2	1975.9	1971.7	1976.4	1713.8	2.60	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap ex Inv Trusts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A ALL-SHARE	1874.21	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FT-SE Actuaries All-Share

	Jul 10	Day's chge%	Jul 9	Jul 8	Jul 5	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	[illegible]										
12 Extractive Industries(6)	[illegible]										
15 Oil, Integrated(3)	[illegible]										
16 Oil Exploration & Prod(15)	[illegible]										
20 GEN INDUSTRIALS(270)	[illegible]										
21 Building & Construction(34)	[illegible]										
22 Building Matls & Merchs(23)	[illegible]										
23 Chemicals(23)	[illegible]										
24 Diversified Industrials(15)	[illegible]										
25 Electronic & Elect Equip(37)	[illegible]										
26 Engineering(71)	[illegible]										
27 Engineering, Vehicles(14)	[illegible]										
28 Paper, Pckg & Printing(26)	[illegible]										
29 Textiles & Apparel(18)	[illegible]										
30 CONSUMER GOODS(91)	[illegible]										
32 Alcoholic Beverages(6)	[illegible]										
33 Food Producers(24)	[illegible]										
34 Household Goods(15)	[illegible]										
36 Health Care(20)	[illegible]										
37 Pharmaceuticals(12)	[illegible]										
38 Tobacco(1)	[illegible]										
40 SERVICES(223)	[illegible]										
41 Distributors(31)	[illegible]										
42 Leisure & Hotels(24)	[illegible]										
43 Media(45)	[illegible]										
44 Retailers, Food(14)	[illegible]										
45 Retailers, General(43)	[illegible]										
47 Breweries, Pubs & Rest.(24)	[illegible]										
48 Support Services(38)	[illegible]										
49 Transport(22)	[illegible]										
60 UTILITIES(35)	[illegible]										
62 Electricity(17)	[illegible]										
64 Gas Distribution(2)	[illegible]										
66 Telecommunications(8)	[illegible]										
68 Water(12)	[illegible]										
69 NON-FINANCIALS(659)	[illegible]										
70 FINANCIALS(105)	[illegible]										
71 Banks, Retail(9)	[illegible]										
72 Banks, Merchant(6)	[illegible]										
73 Insurance(23)	[illegible]										
74 Life Assurance(6)	[illegible]										
77 Other Financial(21)	[illegible]										
79 Property(41)	[illegible]										
80 INVESTMENT TRUSTS(126)	[illegible]										
89 FT-SE-A ALL-SHARE(890)	1874.21	[illegible]									
FT-SE-A Fledgling	[illegible]										
FT-SE-A Fledgling ex Inv Trusts	[illegible]										

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	[illegible]										
FT-SE Mid 250	[illegible]										
FT-SE-A 350	[illegible]										

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]											
Pharmaceuticals	[illegible]											
Water	[illegible]											
Banks, Retail	[illegible]											

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TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 10 / Sch)

BELGIUM/LUXEMBOURG (Jul 10 / Frs.)

CZECH REP (Jul 10 / Koruna)

DENMARK (Jul 10 / Kr)

FINLAND (Jul 10 / Mka)

FRANCE (Jul 10 / Frs.)

GERMANY (Jul 10 / Dm.)

GREECE (Jul 10 / Drachma)

ITALY (Jul 10 / Lire)

NORWAY (Jul 10 / Kroner)

POLAND (Jul 10 / Zloty)

PORTUGAL (Jul 10 / Escudo)

SPAIN (Jul 10 / Pta.)

NETHERLANDS (Jul 10 / Fl.)

SWEDEN (Jul 10 / Kronor)

SWITZERLAND (Jul 10 / Frs.)

TURKEY (Jul 10 / Tk Lira)

PACIFIC

JAPAN (Jul 10 / Yen)

HONG KONG (Jul 10 / H.K.$)

INDONESIA (Jul 10 / Rupiah)

MALAYSIA (Jul 10 / MYR)

NEW ZEALAND (Jul 10 / NZ $)

SINGAPORE (Jul 10 / S$)

AUSTRALIA (Jul 10 / Aust$)

SOUTH KOREA (Jul 10 / Won)

TAIWAN (Jul 10 / TW $)

THAILAND (Jul 10 / Baht)

MONTREAL (Jul 10 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Jul 10 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jul 10 / Can $)

4 pm close

INDICES

US INDICES

Day's high 5596.43 (5595.46) Low 5550.83 (5538.01) (Actual‡)

Standard and Poors

Composite‡	654.75	652.54	657.44	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials♥	778.72	776.93	781.77	807.86 (5/6)	702.07 (15/1)	807.86 (5/6/96)	3.62 (21/6/32)
Financial	65.06	64.53	65.75	68.56 (5/3)	58.67 (10/1)	68.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	351.57	350.33	353.24	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	566.67	568.91	574.33	614.99 (22/5)	529.06 (18/1)	614.99 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1153.59	1146.82	1158.35	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (31/10/72)

■ RATIOS

	Jul 5	Jun 28	Jun 21	Year ago
Dow Jones Ind. Div. Yield	2.22	2.18	2.17	2.37
	Jun 28	Jun 19	Jun 12	Year ago
S & P Ind. Div: yield	1.87	1.87	1.87	2.14
S & P Ind. P/E ratio	22.29	22.22	19.65	18.60

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
LSI Logic	6,381,500	21½	-2
Lear Corp	4,361,500	33½	-¼
Hewlett Pck	4,308,400	87¼	-3⅜
Motorola	3,520,900	66¼	-1⅜
Ford Motor	3,478,900	30⅜	----
Loral Space	3,328,900	12¼	----
Utd Hlthcre	3,189,900	45⅝	-2⅝
Pepsico	3,029,100	33⅛	-¼
Tele Mex	2,939,200	32⅝	+⅜
AT & T	2,801,500	58⅞	-⅝

■ TRADING ACTIVITY

● Volume (million)

	Jul 9	Jul 8	Jul 5
New York SE	379.200	332.662	181,413
Amex	22.338	15.485	10,425
NASDAQ	497.442	455.928	222,132
NYSE			
Issues Traded	3,181	3,149	2,969
Rises	1,360	747	309
Falls	1,035	1,708	2,087
Unchanged	786	694	573
New Highs	51	30	21
New Lows	60	77	51

■ S&P 500

■ INDEX FUTURES

■ CAC-40

■ DAX

■ OMX

■ SOFFEX

■ Nikkei 225

FT FREE ANNUAL REPORTS SERVICE

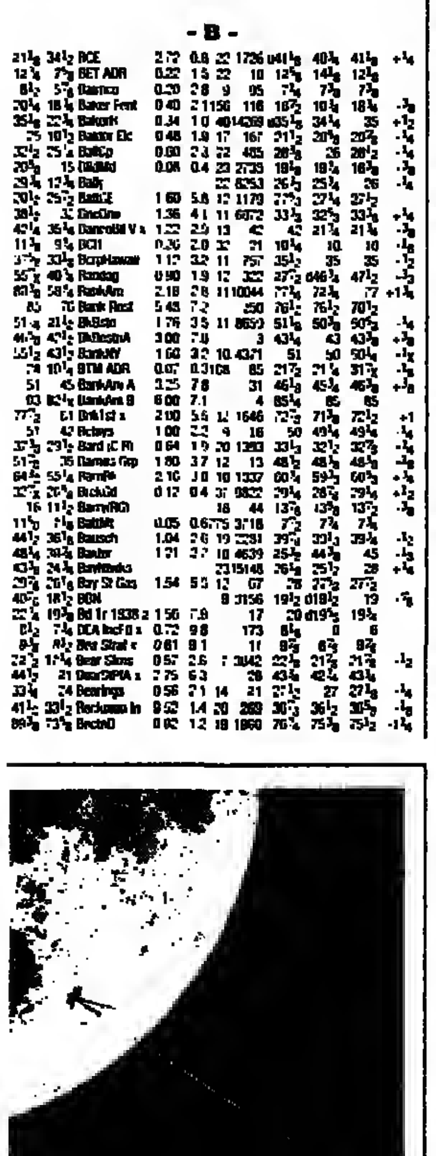
■ TOKYO - MOST ACTIVE STOCKS: Wednesday, July 10,1996

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsui Matushima	6.7m	550	-7	Mitsubishi Hvy	3.5m	932	-15
Takashima & Co	6.0m	778	+100	Kawai Music Inst	3.1m	610	+65
Nippon Stl Corp	5.6m	351	-6	77 Bank	2.8m	1070	
Toshiba Corp	4.6m	759	-6	Kawasaki Steel	2.7m	380	-3
Hitachi	4.1m	1020		Matsushita E Ind	2.5m	1990	

4 pm close July 10

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	19	AAR	0.40	2.4	19	247	20	19⅝	19⅞	-⅛
40⅞	30⅛	ABT	1.00	2.5	20	8244	40⅛	39⅞	40¼	+¼
67½	36	AMR			28	7726	64¼	79¾	61¾	-1⅝
50½	37⅞	ASA	1.80	4.4	27	338	41⅞	40⅞	41⅞	-⅛
44⅜	38⅛	AbbtL	0.96	2.3	18	11267	42½	41⅝	42⅛	+¼
17¼	12⅞	Abitibi Pr	0.40	3.1	8	4285	13¼	d12⅞	13	-½
40⅞	27	ABM Ind	0.70	1.7	28	44	u40⅞	39⅞	40⅞	+⅞
16⅛	13⅞	Acptncela			48	120	16¼	17⅞	17¾	-⅜
50⅞	37¾	ACE Ltd	0.88	1.3	18	839	44½	44⅛	44¼	+⅛
9⅞	9⅛	ACM Gvt In x	0.80	9.1	6	766	u9⅞	8⅝	8⅞	+⅛
7⅞	6⅞	ACM GvOpp z	0.57	8.4		178	6⅞	6¼	6¼	
7¼	6	ACM Gvt Sp z	0.96	16.2		830	6⅞	6¼	6⅞	+⅛
9⅛	8¾	ACM Gvt Se x	0.80	16.6		529	8½	8⅜	8¼	+⅜
9½	8⅛	ACM Man x	0.90	10.7		646	8⅞	d8⅞	8⅞	-⅛
30¼	16½	AcmeClv	0.52	1.7	7	8	30	20⅞	20⅞	
13⅞	6⅛	Acme Elect			43	70	8	7¼	7¼	
33¾	27¾	Acordia	0.80	2.4	19	8	32⅛	32¾	32¾	-⅛
31⅞	12	Acuson			61	338	14¼	13⅝	13⅝	-⅛
19½	18⅜	Adams Expr	1.66	8.7	8	329	19⅛	18	19	
31¼	12¾	AdvMic			5	6628	13⅛	d12¾	13	-⅛
11⅛	8½	Advest Grp	0.16	1.6	7	18	18¼	18⅛	18¼	
28⅛	9⅛	Advo Inc	0.19	1.8	53	513	10	9⅝	9⅞	-¼
50⅞	41¼	Aegon	1.18	2.5	14	31	47⅞	47⅞	47⅝	+⅛
6¼	3½	Aerfix			3	1005	5¾	5⅝	5⅝	-⅛
78¾	64¼	Aetnal	2.76	4.2	17	11982	66⅝	d64¾	65⅛	-1⅜
33	28¼	Aflac	0.40	1.4	12	13276	30⅞	28⅞	29¼	-¾
20⅞	17⅛	AGL Res	1.66	5.7	18	273	18⅝	18½	18⅝	
28	21¼	Ahmnsn	0.88	3.4	7	1787	26⅛	25⅝	25⅞	
[illegible]										



Continued on next page

4 pm close July 10

NYSE PRICES

Continued from previous page

- X - Y - Z -

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
54¾	39¼	Xerox	1.16	2.2	41	10575	53¼	52⅛	53	+½
47⅝	39¾	Xtra Corp	0.72	1.6	15	38	45⅜	44½	44½	-⅝
25¾	20⅞	Yankee Egy	1.30	5.9	12	62	22¼	22	22	-¼
58¾	43⅞	York Int	0.36	0.7	21	1216	49⅞	48¾	49	-1
3⅞	3	Zapata	0.14	3.9	0	142	3⅝	3⅝	3⅝	
25¾	5⅞	ZeitlinEl			5	2585	11¼	10½	10½	-¾
28⅞	21⅞	Zenith Nat	1.00	3.6	39	170	27⅞	27⅞	27¾	
7⅛	6½	Zenix Inc	0.72	10.5		130	7	6⅞	6⅞	
22⅞	15⅛	Zero	0.12	0.6	19	262	21⅞	21⅛	21⅛	-½
23¼	19⅝	Zurn Ind	0.40	2.0	15	1183	20⅝	20⅜	20⅜	-⅛
11⅝	10¾	Zweig Fund x	1.08	9.8		525	11	10⅞	11	-⅛
8	6¼	Zweig Tot R x	0.64	10.0		577	6⅝	d6¼	6⅝	+⅛

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

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AMEX PRICES

4 pm close July 10

NASDAQ NATIONAL MARKET

4 pm close July 10

AMERICA

Motorola effect hits US stocks

Wall Street

Poor trading news from Motorola upset the technology sector and led to a wider fall in the US stock market, *writes Maggie Urry in New York.*

By 1 pm, the Dow Jones Industrial Average had fallen 32.58 to 5,548.98 and the Standard & Poor's 500 was 4.68 lower at 650.07. The American Stock Exchange composite lost 4.65 at 561.52. NYSE volume was 237m shares.

The sell-off in technology shares particularly affected the Nasdaq composite, which fell 15.54 to 1,138.05 by lunchtime, a drop of 1.3 per cent. The Pacific Stock Exchange technology index was down 1.8 per cent.

Motorola, which makes semiconductors and telecommunications equipment, had announced a sharper than expected fall in second-quarter earnings after the market closed on Tuesday, and said it would cut back its expansion plans in the face of softening demand and falling prices for chips. Its shares had closed at $66½ on Tuesday, but fell some $5 in after-hours' trade.

The shares dropped further in morning trading, to show a loss of $8⅞ at $57⅝, a decline of 13.4 per cent from the previous official close.

Motorola's woes weighed on other stocks in the sector. Texas Instruments fell $⅜ to $48⅝, IBM was $⅝ lower at $98⅜, and Hewlett Packard $⅜ down at $87. On the Nasdaq market, Microsoft lost $1⅛ to $118⅝, while Intel was down $1⅛ at $72⅜ and Sun Microsystems dropped $1⅝ to $52.

Concern about the outlook for earnings in the health sector put pressure on prices there. United Health Care fell $1⅝ to $44⅛, down 3.6 per cent; shares of Wellpoint Health Networks declined $1 at $30⅝.

Within the Dow's 30 shares Boeing dropped $2 to $88⅝ after British Airways said it might postpone a $10bn order for new aircraft if its pilots' strike went ahead.

News from Procter & Gamble of a 12.5 per cent dividend increase and a $1bn share repurchase plan initially lifted the shares $1⅝, before they were caught in the general market malaise, and fell $⅜ to $87⅝.

Canada

Toronto was slightly higher at midsession, supported by stronger golds, and doing its best to ignore Wall Street's influence. The TSE-300 composite index was 3.84 higher at 5,080.50 in volume that had picked up from the average of recent days to 42.5m shares.

Latin America

MEXICO CITY was making headway at midsession as investors took encouragement from Tuesday's good performance. By midsession the IPC index was up 18.57 at 3,104.25.

SAO PAULO took profits following a 2.4 per cent gain in the previous session, and the Bovespa index was down 858, or 1.3 per cent, at 64,022.

European high-techs tumble

By Michael Morgan

The rout of Motorola on Wall Street, after Tuesday's lower than expected results, spilled over to European high-technology stocks, with Nokia and Ericsson in particular marked down sharply early in the day.

Motorola reported that second-quarter profits dropped to 54 cents a share, from 79 cents a year earlier, and compared with consensus market expectations of 69 cents.

The US company blamed weakening demand and pricing pressures in semiconductors, coupled with start-up costs and depreciation from added new capacity.

Mr Neil Barton at Merrill Lynch said that, adjusted for a European context, the problems reported by Motorola were applicable to the European high-technology companies.

"There is no reason right now for people to be buying these shares," he said. "There is also a question mark over whether it is too late to sell. The downside is limited, but why would anybody be buying or owning them over the next three months? Longer term, however, we like them all."

Nokia fell 7.6 per cent in early Helsinki trade before recovering some of the lost ground to close FM7.60 off at FM170.90. In Stockholm, Ericsson lost SKr7 at SKr137.50. The ADRs of both companies, traded in New York, were also sharply lower.

Elsewhere in continental Europe, Philips lost Fl 1.10 to Fl 54.90 in Amsterdam, while Frankfurt saw Siemens 58 pfgs down at DM81.27. In Paris, Alcatel retreated FFr7.90 to FFr436.1 and SGS-Thomson dropped FFr4.50 to FFr177.50.

EUROPE

Mannesmann rises on DBKom success

The German federal railway's decision to sell its 49.8 per cent stake in DBKom, its telecommunications subsidiary, to a consortium which included Mannesmann took FRANKFURT by surprise.

The market, which had for the previous few days been *expecting Thyssen to win the* bid, consequently marked Mannesmann up to a session's high of DM539, before profit-taking left it a net 10 pfgs easier at DM534.70. Thyssen surrendered DM4.50 to DM293.

In the Ibis, there was a different picture as Mannesmann moved ahead to DM549.20 and Thyssen shrank to DM284.80.

Deutsche Morgan Grenfell, in a recent report on Mannesmann, said that DBKom offered an extensive nationwide network, would immediately bring in cashflow with Deutsche Bahn as a corporate customer, and provided a right of way to virtually every town and city in the country.

There were negative factors, however, said the broker, including the cost of upgrading and configuring the network, since most of it was copper wire rather than fibre optic.

The Dax finished 5.25 firmer at 2,567.43 and the Ibis at 2,573.00. Volume was DM10bn.

ZURICH extended its run of record highs, led by renewed strong demand for Roche.

The SMI index rose 14.6 to 3,788.00 as the market overcame a hesitant start and activity picked up after the US bond market opened firm.

Roche certificates, which had underperformed in recent sessions, rose SFr110 to SFr9,800, with some investors said to be switching out of the Novartis partners after their strong run.

Sandoz gave up SFr6 to SFr1,423 and Ciba was steady at SFr1,522; both companies plan to release six-month sales figures today.

Nestlé, heavily traded again, slipped SFr6 to SFr1,480 on profit-taking.

UBS bearers consolidated recent strong gains in the morning before rumours that the bank was to hold a news conference spurred the shares SFr8 higher to SFr1,277. The bank said later that no conference was planned.

Swiss Re added SFr20 at SFr1,256, but analysts were unaware of any special reason for the rise.

EMS Chemie, due to hold a news conference tomorrow, picked up SFr150 to SFr5,400 on speculation that the group might announce a new share buy-back plan or go private.

Esec, the high-technology group which announced the takeover of Zevatech, of the US, on Tuesday, lost SFr200 to SFr5,200 after trading as high as SFr5,500 early in the day.

PARIS had some good performances in the financial sector, notably Société Générale, up FFr18, or 3.3 per cent, at FFr559, where activity was helped by a strong bond market and a report from the banking commission calling for further restructuring in the sector. BNP rose FFr5.10, or 3 per cent, to FFr181.10.

The CAC-40 index did little, however, edging ahead a scant 5.28 to 2,081.85. Turnover came to FFr4.7bn.

Both Cerus and Valeo were affected by news from the former that it was to make a FFr1bn convertible bond issue, which was taken as signalling that it would have less reason to dispose of its 28 per cent stake in Valeo, the car components manufacturer.

Cerus dropped FFr11.60 to FFr100.40 and Valeo moved FFr7.20 lower to FFr275.80.

Docks de France rose FFr8 to FFr1,230 as investors decided that it would have trouble fending off a hostile takeover bid from Auchan, a privately owned group.

AMSTERDAM moved lower overall, and Heineken's Fl 1 loss to Fl 379 was following the trend rather than reacting to news that the brewer was to withdraw its activities from Myanmar.

The Dutch group had made a $30m investment in the country some 18 months ago, and had decided to leave largely because of the country's human rights record. The Aex index lost 2.24 to 554.52.

Royal Dutch, which hit a session high of Fl 266.30, closed with a gain of 80 cents at Fl 263.40, after announcing a petroleum additives joint venture with Exxon, of the US.

Ahold lost 70 cents to Fl 91.80 as it extended its offer for Stop & Shop to July 19.

MILAN edged slightly ahead in late trade, after a thin business, as political jitters prompted many investors to hold back ahead of a crucial parliamentary vote on the government's budgetary measures.

The Comit index rose 0.49 to 654.25, while the real-time Mibtel index picked up from a low of 10,418 to finish 10 higher at 10,437.

A L574 tumble to L20,371 in Benetton, the clothing group, was attributed to market expectations of a warrant issue.

Eni, the state energy group, rose L72 to L7,632 and Montedison was L15.1 higher at L868.9, with the recoveries in both attributed to futures hedging.

Written and edited by Michael Morgan and John Pitt

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Jul 10 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1690.90	1690.14	1690.48	1690.41	1690.74	1690.15	1691.10	1689.63
FT-SE Eurotrack 200	1733.01	1732.02	1731.98	1732.73	1733.05	1732.71	1733.70	1732.35

	Jul 9	Jul 8	Jul 5	Jul 4	Jul 3
FT-SE Eurotrack 100	1690.80	1698.42	1700.35	1709.78	1703.23
FT-SE Eurotrack 200	1731.79	1728.13	1734.01	1743.59	1735.19

Base value 1000 (26/10/90). High/day: 100 - 1691.84; 200 - 1733.35 Low/day: 100 - 1688.65 200 - 1731.08. † Partial.

ASIA PACIFIC

Rate worries keep Nikkei on downward path

Tokyo

The Nikkei average fell for the fifth consecutive day as worries over a rise in interest rates prompted a sell-off by financial institutions, *writes Emiko Terazono in Tokyo.*

The 225-share index lost 140.88, or 0.6 per cent, to 21,778.94, after moving between 21,757.54 and 22,041.80. Shares gained ground in the morning due to the overnight rise in US shares. *Semiconductor stocks* were initially bought owing to an improvement in the supply and demand figures in the US semiconductor market; but arbitrage-linked selling emerged in late trading and, along with profit-taking by domestic and foreign institutions, eroded the early gains.

Volume was 322m shares, against 266m. The Topix index of all first section stocks fell 9.15 to 1,658.17 and the Nikkei 300 lost 2.11 to 306.90. Declines led advances by 596 to 410, with 199 issues unchanged.

In London the ISE/Nikkei 50 index put on 0.03 at 1,477.01.

The rise in short-term money market rates above the official discount rate, currently at 0.5 per cent, triggered new fears over a shift in the Bank of Japan's monetary policy. Meanwhile, some investors were unnerved by the yen's rebound against the dollar following reports that US business leaders had expressed concern over the US currency's recent ascent.

Car shares were lower, with Honda Motor down Y70 to Y2,710, Toyota Motor losing Y60 to Y2,640 and Hino Motor declining Y40 to Y1,060.

Some semiconductor related stocks initially gained ground, but later fell on fears of the yen's rise. Toshiba lost Y6 at Y759 and NEC Y10 at Y1,180.

Large-capital steels and shipbuilders retreated on profit-taking, with Nippon Steal relinquishing Y6 to Y351.

Banks were weak on fears of a rise in interest rates. Industrial Bank of Japan fell Y30 to Y2,540 and Sumitomo Bank slipped Y30 to Y2,040.

Oil refiners were among the day's gainers and firm crude oil prices helped the sector, Showa Shell Sekiyu rising Y20 to Y1,110 and Cosmo Oil adding Y7 at Y695.

Some speculative issues surged on active buying: Takashima, a trading company, jumped Y100 to Y778 and Kawai Musical Instruments rose Y85 to Y610.

In Osaka, the OSE average fell 56.50 to 23,102.03 in volume of 29.6m shares. Nintendo, the video game maker, rose Y50 to Y8,020 on bargain hunting.

Roundup

Heavy profit-taking depressed TAIPEI and left the weighted index off 102.64, or 1.6 per cent, at 6,225.59. Turnover amounted to T$42.3bn.

Leading the way down were Formosa Plastics, off T$3.5 to T$56, and Formosa Chemical Fibres, T$2 cheaper at T$83.4. However, some high-technology stocks saw minor rebounds after heavy profit-taking earlier this week. Taiwan Semiconductor firmed 50 cents to T$52.5 and Systex ended T$1 ahead at T$26.6.

WELLINGTON was helped higher by a bond market rally and news that Brierley Investments, up 4 cents at NZ$1.42, had appointed advisers for a possible float of its Thistle hotels chain in the UK.

The NZSE-40 Capital index moved up 12.75 to 2,116.93 in turnover of NZ$54.7m.

Power New Zealand rose 15 cents to NZ$6.40 after Mercury Energy lifted its offer for a 7 per cent stake held by Valley Power to $7 per share.

SYDNEY was supported by the gold shares sector as the All Ordinaries index made 5.8 to 2,201.1 and the golds sub-index advanced 1 per cent.

Against the trend went Boral, off 7 cents to A$3.11, while BHP, which reached an intra-day high of A$17.42, finished steady at A$17.27.

SEOUL continued to be driven by rumours that the Finance Ministry planned measures to help the stock market, and the composite index finished 0.74 higher at 858.79 after a tug of war between bargain hunters and profit-takers.

Analysts noted a lot of speculativa buying, especially in smaller stocks, in the belief that the ministry was considering allowing second-tier stock to be bought on margin. Currently, margin loans are available only to those in the first section.

SINGAPORE followed Wall Street higher. Tha Straits Times Industrial index put on 14.98 at 2,230.42, but much of the action was seen in Malaysian over-the-counter shares.

HONG KONG ended lower, after spending much of the session in positive territory, prompting speculation that European investors had chosen to take some profits. The Hang Seng index turned back from a high of 10,992.91 to close 17.87 weaker at 10,911.76 in volume that picked up to HK$4.4bn.

SOUTH AFRICA

Equities closed firmer, with industrials boosted by positive sentiment spilling over from the bond market. *Golds* advanced on expectations of favourable gold mining quarterlies, and a stronger bullion price. The overall index rose 24.7 to 6,937.9, the industrials index was up 4.9 to 8,184.3 and the golds index gained 29.5 at 1,896.6. De Beers added 75 *cents to finish at R150.*

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms July 5 1996	Dollar terms % Change over week	Dollar terms % Change on Dec '95	Local currency terms July 5 1996	Local currency terms % Change over week	Local currency terms % Change on Dec '95
Latin America	(247)	639.84	+0.6	+14.4			
Argentina	(31)	902.97	-2.3	+12.7	553,266.74	-2.3	+12.6
Brazil	(68)	376.65	+3.1	+23.4	1,415.56	+3.1	+27.5
Chile	(43)	781.74	+2.0	+1.8	1,266.87	+3.2	+3.0
Colombia¹	(16)	602.27	+0.2	+0.7	1,137.61	+0.1	+8.4
Mexico	(64)	517.56	-3.1	+14.2	1,702.38	-2.4	+13.1
Peru²	(21)	226.91	+4.4	+15.0	339.17	+4.5	+22.1
Venezuela³	(5)	510.96	+1.1	+52.6	5,518.01	+1.2	+111.4
Asia	(632)	283.69	-0.2	+13.6			
China⁴	(24)	57.90	-2.3	+7.0	60.81	-2.3	+7.0
South Korea⁵	(145)	108.59	+1.6	-13.8	116.13	+2.1	-9.6
Philippines	(35)	334.26	+2.1	+28.8	422.88	+2.1	+28.6
Taiwan, China⁶	(83)	147.39	-1.8	+30.7	152.55	-1.7	+32.0
India⁷	(76)	101.91	-1.4	+26.8	126.67	-2.1	+26.2
Indonesia⁸	(44)	118.31	-4.5	+8.0	147.96	-4.0	+8.6
Malaysia	(123)	316.33	+0.5	+17.8	293.60	+0.4	+15.5
Pakistan⁹	(25)	277.63	-2.9	+14.4	443.75	+2.8	+17.7
Sri Lanka¹⁰	(5)	99.85	+0.2	-4.1	120.32	-0.2	-0.5
Thailand	(72)	353.16	+0.6	-6.0	356.46	+0.7	-5.2
Euro/Mid East	(238)	146.22	+1.2	+3.2			
Czech Rep	(5)	73.12	+1.6	+21.6	66.71	+1.3	+25.4
Greece	(47)	244.13	-0.2	+1.1	398.58	-0.6	+2.5
Hungary¹¹	(8)	178.19	+1.6	+81.1	322.23	+1.8	+99.1
Jordan	(8)	165.35	-0.4	-10.9	247.08	-0.4	-10.4
Poland¹²	(22)	768.92	+4.5	+80.3	1,317.42	+4.6	+99.0
Portugal	(26)	129.17	-1.0	+11.6	139.33	-0.6	+17.2
South Africa¹³	(63)	236.08	+0.4	-7.7	213.16	+0.2	+9.7
Turkey¹⁴	(54)	160.19	+7.9	+53.3	6,240.91	+8.9	+108.8
Zimbabwe¹⁵	(5)	372.06	-0.4	+35.5	541.36	-0.4	+43.6
Composite	(1117)	306.47	+0.4	+11.1			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: [illegible]

Smith Barney, the US broker, has revised its ratings for Latin American equity markets, upgrading Chile and Colombia and reducing its recommendations on Argentina and Brazil. At the same time, it has maintained an outperform rating on Mexican equities.

Mr Peter Treadway, an analyst at Smith Barney in New York, said that over the long run he was relatively optimistic on virtually all the Latin American equity markets. On Argentina, which was downgraded to neutral from outperform, Mr Treadway said that, over the next six to nine months, he would defer to the prevailing view that the dollar-linked economy would see its equity market slowed by fears about US interest rates. As for Brazil, also reduced to neutral, he noted the market had experienced "a big run as of late, powered by good earnings from, and privatisation hopes for, Telebras".

Mr Treadway believed that Chile, upgraded to an outperformer, had seen the worst case scenario on copper prices come true in a few weeks, thanks to Sumitomo.

A recent downgrade on Colombia had been based on fears of significant US retaliation as a response to the expected exoneration of President Samper for any responsibility for receiving drug trafficking funds in the 1994 Liberal party election campaign. The retaliation had not materialised and was now looking less likely, which had led to an upgrade for the market to outperform. Mexico was the riskiest call, but price/earnings ratios were relatively low, the market had underperformed recently, and the broker thought that output and *earnings estimates would continue to be revised upwards.*

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	TUESDAY JULY 9 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on Jan 1	Gross Div. Yield	MONDAY JULY 8 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (79)	188.26	0.1	189.44	138.15	157.01	188.33	0.3	4.43	188.08	188.94	138.78	157.33	188.91	212.18	188.63	188.63
Austria (24)	182.60	0.8	174.48	127.25	144.81	144.56	0.3	1.94	181.22	172.87	126.95	143.94	143.89	198.86	168.11	198.15
Belgium (27)	209.38	-0.2	200.08	145.90	165.81	162.03	-0.4	4.11	209.79	200.12	146.97	166.63	162.74	215.81	185.05	185.65
Brazil (28)	183.15	1.5	176.41	130.84	148.86	347.40	1.9	1.87	164.47	176.95	129.23	146.52	341.08	187.78	123.97	143.33
Canada (120)	160.66	1.1	153.51	111.95	127.25	159.33	1.0	2.27	158.90	151.66	111.36	126.29	157.74	168.12	134.14	146.83
Denmark (33)	306.48	1.1	292.85	213.57	242.72	244.86	0.8	1.88	303.10	289.13	212.34	240.75	242.57	306.48	276.89	255.03
Finland (23)	199.95	1.2	187.24	136.55	155.18	191.50	1.1	2.61	193.61	184.86	135.83	153.78	189.35	276.11	171.73	250.23
France (98)	193.15	0.6	184.48	134.60	153.00	155.98	-0.1	3.07	193.41	184.60	135.76	153.46	156.03	199.39	167.76	168.40
Germany (58)	171.68	0.6	164.04	119.63	135.98	135.95	0.5	1.83	170.37	162.51	119.43	135.32	135.32	174.38	148.85	160.57
Hong Kong (58)	425.42	0.4	406.50	296.45	336.91	422.74	0.4	3.38	423.57	404.04	298.73	336.43	420.96	451.19	348.61	375.58
Indonesia (27)	203.74	-4.1	194.68	141.96	161.35	292.04	-3.2	1.66	212.67	193.51	142.10	160.87	301.74	[illegible]	[illegible]	[illegible]
Ireland (16)	279.76	-0.6	267.53	194.95	221.57	247.77	-0.8	3.46	281.38	268.38	197.10	223.48	249.57	290.92	235.88	242.07
Italy (59)	81.12	0.0	77.60	56.74	64.48	93.16	-0.3	2.37	81.46	77.70	57.06	64.89	93.46	84.53	67.22	77.54
Japan (481)	151.71	0.4	144.99	105.73	120.18	105.73	-0.1	0.77	151.16	144.10	105.86	120.06	105.86	164.69	131.75	161.07
Malaysia (107)	560.43	0.5	535.51	390.53	443.83	537.88	0.6	1.67	557.91	532.28	389.44	441.55	533.98	595.00	425.77	547.02
Mexico (18)	1161.07	1.5	1126.54	822.02	933.34	6685.08	1.4	1.35	1160.71	1107.19	813.12	921.83	6727.56	1325.65	791.29	1164.24
Netherland (18)	294.72	0.7	281.61	205.37	233.40	229.94	0.4	2.96	292.56	279.07	204.93	232.35	228.89	296.59	246.79	246.32
New Zealand (15)	81.05	0.5	77.45	56.48	64.18	62.57	0.5	4.34	80.77	77.05	56.58	64.16	62.25	85.49	73.94	82.48
Norway (35)	253.96	1.3	242.69	176.99	201.14	224.69	1.2	2.01	250.85	239.09	175.56	199.05	222.03	258.84	222.24	237.08
Philippines (22)	213.30	-1.6	203.81	148.62	168.92	278.34	-1.6	0.95	218.69	208.70	151.80	172.11	282.77	[illegible]	[illegible]	[illegible]
Singapore (44)	402.43	-0.4	384.53	280.43	318.70	262.04	-0.5	1.45	404.18	385.52	283.13	321.01	263.45	455.21	355.81	398.49
South Africa (44)	364.68	0.6	348.46	254.13	288.81	343.34	0.7	2.10	361.61	344.94	253.22	286.87	340.87	437.76	341.68	348.74
Spain (37)	180.64	0.8	172.60	125.89	143.06	178.74	0.4	3.30	179.19	171.09	125.69	142.66	178.03	183.65	143.15	151.29
Sweden (48)	352.66	0.8	336.97	245.75	279.28	346.85	0.6	2.45	349.94	333.81	245.13	277.95	346.92	360.77	280.13	282.48
Switzerland (37)	244.77	1.3	233.86	170.56	193.84	191.32	1.1	1.55	241.72	230.58	169.34	192.00	189.32	252.34	191.24	202.07
Thailand (45)	168.94	0.1	161.43	117.72	133.79	166.61	-0.0	1.93	168.78	161.00	118.24	134.05	166.61	192.96	148.74	181.07
United Kingdom (200)	235.58	0.1	225.10	164.16	186.56	225.10	0.3	4.15	235.34	224.49	164.86	186.93	224.49	237.48	216.52	222.93
USA (637)	268.30	0.3	264.48	186.57	210.80	268.30	3.0	2.22	265.39	253.15	185.92	210.79	265.39	276.47	224.83	227.02
Americas (783)	243.66	0.4	232.83	169.79	192.97	204.88	0.4	2.21	242.69	231.50	170.02	192.77	204.09	252.43	208.37	208.31
Europe (716)	211.18	0.4	201.79	147.16	167.24	194.90	0.4	3.07	210.27	200.57	147.30	167.01	194.29	213.95	188.25	184.40
Nordic (139)	304.28	0.9	290.74	212.03	240.97	264.67	0.7	1.93	301.43	287.53	211.18	239.42	262.72	305.61	263.13	271.69
Pacific Basin (879)	164.68	0.4	157.24	114.74	130.40	116.69	-0.1	1.18	164.08	156.51	114.94	130.32	116.79	177.01	148.36	161.35
Euro-Pacific (1589)	183.93	0.4	175.75	128.17	145.66	142.48	0.1	2.08	183.21	174.76	128.34	145.52	142.30	190.57	168.51	175.02
North America (747)	258.85	0.4	246.29	181.07	205.78	259.20	0.4	2.22	257.88	245.91	181.35	205.62	259.24	266.92	220.03	222.64
Europe Ex. UK (510)	192.72	0.6	184.15	134.30	152.63	160.52	0.4	2.14	191.53	182.71	134.15	152.14	159.64	194.82	168.33	168.56
Pacific Ex. Japan (398)	294.41	0.3	281.31	205.16	233.16	279.01	0.3	3.01	293.63	280.08	205.69	233.22	278.13	312.89	245.30	258.87
World Ex. US (1796)	183.39	0.5	177.14	129.19	146.82	147.09	0.2	2.06	184.57	176.06	129.30	146.60	146.78	191.55	167.36	175.93
World Ex. UK (2226)	207.63	0.4	198.38	144.82	164.58	176.80	0.2	1.94	206.83	197.29	144.88	164.29	176.17	213.05	185.61	186.23
World Ex. Japan (1945)	242.52	0.4	231.74	169.00	192.06	229.86	0.4	2.55	241.54	230.40	169.21	191.85	229.81	247.55	212.62	214.41
The World Index (2426)	210.29	0.4	200.93	146.54	166.54	181.96	0.2	2.14	209.45	199.79	146.72	166.36	181.90	214.95	188.40	191.40

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MAHARASHTRA

Dominant position under challenge

As India proceeds with reforms, Mark Nicholson asks whether the state's politicians and bureaucrats have chosen the right priorities to reach the new objectives

India's third largest state, its undisputed financial centre and industrial powerhouse, has been taking a few knocks to its pride lately. "Is Maharashtra Losing Out?" was the coverline on a recent issue of Business India, the country's leading business magazine.

The story was pegged on the fact that the state suddenly appeared to have missed out on a clutch of new investment megaprojects. It was backed up by figures from the authoritative and independent Centre for Monitoring the Indian Economy showing that, equally suddenly, Maharashtra had been overtaken by Gujarat, Karnataka and Orissa in the gross values of investments approved or under implementation.

The magazine's cover carried an anxious looking Mr Manohar Joshi, the state's chief minister, decked in the totemic bright saffron of the Hindu religion. The clear subtext was that perhaps the year-old Hindu nationalist government of Shiv Sena and the Bharatiya Janata party had been deterring investors – notahly foreign investors. Did they not, after all, "cancel" the $2.5bn Dabhol power project immediately on taking office, "scrapping" the biggest foreign investment in India, largely for political reasons?

Tha govarnmant subsequently renegotiated the Dabhol project, which is now awaiting central government approval. And state leaders dispute the CMIE figures, claiming there are more projects under way in Maharashtra, even if the values are greater in rival states. But there are certainly grounds for Business India's question.

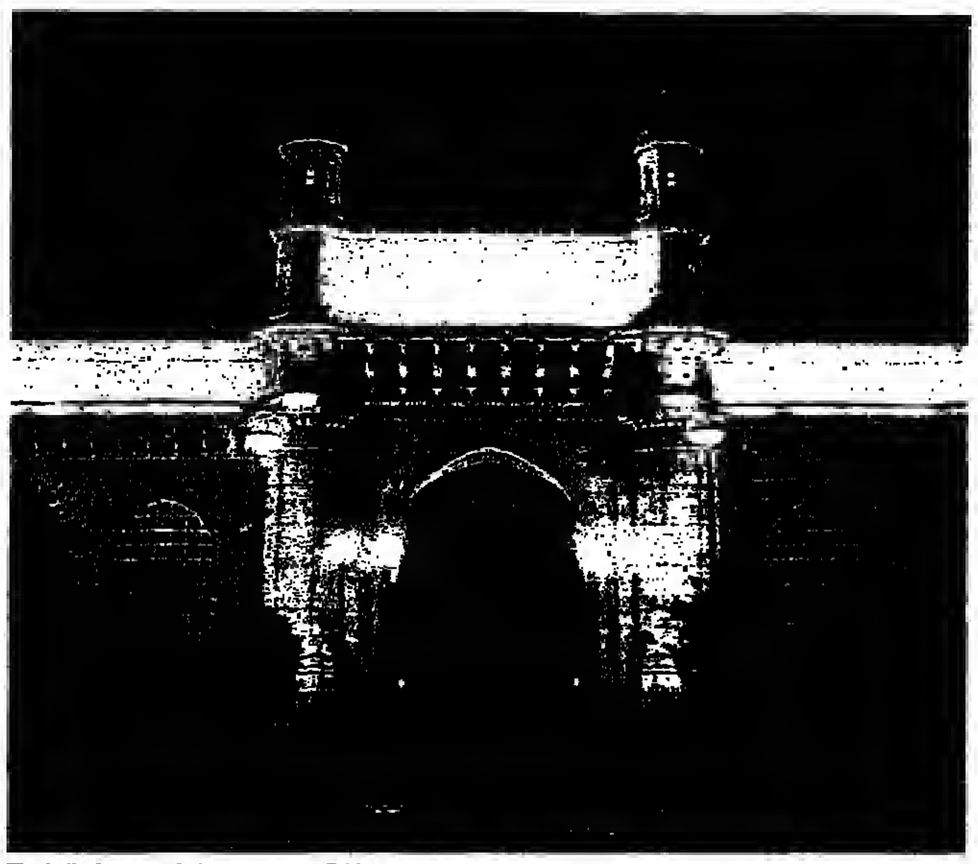
Just this year, for example, a host of big automotive investments have been directed outside the state, which has traditionally been India's auto industry capital. Mahindra & Mahindra, the otherwise Maharashtra-based vehicla maker which has tied up with Ford, decided to site its $600m plant to build the Fiesta model in the southern state of Tamil Nadu. Hyundai, the South Korean carmaker, also said it would set up its new $1bn car plant in the southern state. Carmakers Volvo, Daihatsu and Honda have plumped for manufacturing in other states.

So is Maharashtra's industrial pre-eminence threatened? The answer, on examination, appears to be not immediately, but that India's five-year-old liberalising reforms have succeeded in creating such strong competition among India's leading 20 states for fresh investment that Maharashtra cannot rely alone for its future industrial momentum on its traditional industrial leadership.

Tha question therefore is whether the state's politicians and bureaucrats are as alive to India's post-reform challenges as their state rivals elsewhere in the union.

And the verdict of the state's business, bankers and analysts on this qnestion is mixed: there is some concern that Maharashtra might perhaps be sitting on its laurels.

There is no disputing Maharashtra's present industrial preeminence. The state's 80m people, less than 10 per cent of India's population, produce 23 per cent of the country's outpnt. The state's chemicals, metals, rubher and plastic industries each account for more than a third of India's total production. Its citizens pay 40 per cent of all the income tax collected in India, and its companies 25 per cent of all corporate tax.



The India Gate: symbol of the former British Empire and gateway to the country's future *Picture: Tony Andrews*

Its infrastructure, though stretched, is rivalled by few states. Maharashtra remains essentially immune from the power cuts crippling output elsewhere in India; the state boasts two big container ports and better telecoms than almost anywhers else. New telephone connections, for which there can ba a wait of up to two years in India, are available in Bombay almost on demand – "which is a total communications revolution in India," says one Bomhay banker.

Moreover, Maharashtra's government, and certainly its bureancracy, is highly esteemed for its efficiency and pro-husiness orientation. The state's finances are sounder than almost any other Indian state and its finance ministry has in the last year quietly reformed its sales tax – the primary source of self-generated revenue in all Indian states – into a value added tax which promises considerably to raise the tax take over the next few years. World Bank economists consider it a highly desirable model for others.

For all such reasons, and notwithstanding disputed league tabls figures, Maharashtra remains top of most investors' lists, and particularly foreign investors.

British, American and German trade attachés all say that the state is the first stop for most incomers. "It is still number one, and will continue to be number one," says one western diplomat, "because it's got the goods; the infrastructure, the power, the roads, all the facilities."

Local investors take the same view, according to a comprehensive recent poll of 150 of India's biggest companies compiled by Business Today magazine and Gallup. Maharashtra topped the list of investor-friendly states, well ahead of rivals Gujarat, Tamil Nadn and Karnataka and coming first or second in a list of 19 selected criteria for investment decisions, from physical infrastructure, power and proximity to ports, down to social infrastructure, work ethic, law and order and political stability.

The exception in the list was labour costs, which in Greater Bombay – the core of Maharashtra's industrial base – are among the highest in the country, a function partly of the area's exorhitant property prices, but also of growing transport congestion and other living costs.

Which is where some of the questions start to arise. If Maharashtra is beginning to see difficulties sustaining its industrial and commercial lead, many are simply the consequence of its considerable past indnstrial development – and the attendant higher costs and congestion.

Mr Jamshyd Godrej, managing director of Godrej & Boyce, one of India's biggest privately-held manufacturing gronps, virtually all of whose plants have been in Mabarashtra, says that the company's recent decision to site a new refrigerator plant in Punjab state was partly determined by wage costs, which Mr Godrej says are an eighth of those in Greater Bombay. For similar reasons, Coca-Cola recently decided to relocate its corporate headquarters in Delhi.

Maharashtra's industrial concentration, while e magnet for some investments, also in some cases gives cause to locate elsewhere. Mahindra and Mahindra's decision to locate its new plant in Tamil Nadu, for example, is understood to have much to do with the fact that Maharasthra, and north-west India in general, is already saturated with car producers. M&M thus took the view thet it wished to launch the Fiesta in the south where its greenfield plant will have more of a greenfield market.

If there is a growing trend, bankers and businessmen say it is towards industrial investments moving away from the concentration around Greater Bombay, perhaps to developing centres elsewhere in the state, or often out of the state altogether. Though it is not all one-way traffic. Pune, for instance, is fast emerging as a software centre to rival Bangalore in the south, where growing congestion, increasingly grave power problems and a rising shortage of trained engineers have prompted an overspill to Maharasthra's congenial second city.

Mr Pawan Kumar, president of the software division of Fujitsu-ICIM, which is already based in Pune, says 30-40 software companies have recently opened hranches or started businesses in the city. He foresees the present 2,000 software employees in Pune rising to more than 10,000 hy the turn of the century.

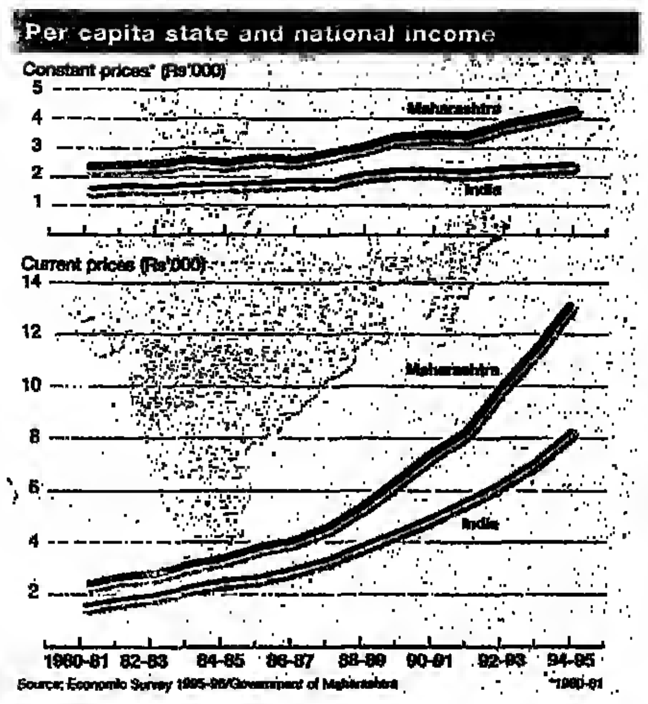
Nevertheless, it has begun to dawn on Maharashtra's administrators that the state cannot sit still and expect a happily rising curve of investment proposals. "We are aware that we have got to keep up our pace of development and facilities at a higher pitch," says Mr Dinesh Afzulpurkar, the state's senior bureancrat.

On one level, it is a matter of public relations, particularly with regard to the perception of Maharashtra among foreign investors after the Dabhol debacle.

Since renegotiating the deal, Mr Joshi and his colleagues have striven to paint a more foreign-friendly face. It is symptomatic of the change in outlook that Mr Joshi allowed himself to sport a Pepsi baseball cap at the recent commissioning of the US group's new production line in the state.

More substantially, though, it is a matter of policy. Business has broadly welcomed the government's new trade and commerce policy, announced in December last year. But many business leaders suggest tha government has been slower to match the policy with practice. "They speak about making a single window for investment approvals," says one businessman. "But they still have a long way to go before this single window is not just an additional window."

Continued on Page VI



IN THIS SURVEY

■ **Politics:** by Shiraz Sidhva

Tiger's fangs are blunted

Shiv Sena's nationalism seems to have been tempered by its accession to power

Power seems to have blunted the fangs of the ferocious tiger that is the emblem of the Shiv Sena party. The organisation, which was notorious for its rabble-rousing nationalistic fervour which has sparked off riot after riot in Bombay since its inception in 1966, seems to have donned a more responsible mantle after having assumed power in Maharashtra in March 1995 in alliance with the Hindu right-wing Bharatiya Janata party.

"We have been given a great responsibility by the people, and we are working very hard to fulfil their expectations, otherwise they will not vote us back to power," says Mr Subhash Desai, ideologue and general secretary of the Shiv Sena. "The law and order problem has improved substantially since we took over the state, and our chief, Mr Bal Thackeray made it clear that there is a task for each and every Shiv Sainik (Shiv Sena member) to perform."

Mr Thackeray, a former cartoonist and journalist, is an unlikely patron saint for India's most industrialised state. There was a time when this self-professed Hitler admirer posed for photographs under a tiger baring its fangs.

Today, the founder of the Shiv Sena, who claims to run the state government "by remote control" (he has no formal office) stares benignly from laminated photographs which adorn all the government offices in Mantralaya, the state government seat.

The Shiv Sena (literally, army of Shivaji, which in the 17th century fought the Mughal king Aurangzeb) was founded in the state in 1966 to galvanise unemployed youth in Maharashtra to protest against "outsiders" (mostly Indians from the southern states of Tamil Nadu, Kerala and Karnataka) taking jobs in Bombay.

The organisation was started primarily as an anti-communist movement, to combat the strong trade unions that controlled the city's textile mills, railways and banks.

The union leaders were mostly from south India, and the Sena was convinced that they favoured employing youth from their states, thereby taking jobs away from the locals.

Mr Thackeray, who changed his name to that of the English writer he admires, had sat back and smirked in December 1992 while his followers targeted Moslems in Bombay's slums and the city burned following the destruction of a mosque by Hindu fanatics in Ayodhya. "To hell with secularism if it is at the cost of the Hindus," he said. He insisted his men were only responding to the provocation by Moslems. "If you slap me, why should I not hit back?" he asked. "I am no Jesus Christ!"

But now Mr Thackeray exhorts his cadres to go into the villages and do such good work for the people that the Shiv Sena can slowly gain enough strength to rule at the central level, along with its ally, the BJP, which won the largest number of seats in national elections held in April and May, but fell short of the majority required to stay in government. Even the Moslems, who were apprehensive when Shiv Sena wrested power in the state after 40 years of Congress rule, admit that the law and order situation in the state has improved. "Our cadres are more responsible and we are being very cautious to ensure that every citizen in the state feels safe," says Mr Desai. "But," he adds hurriedly, "that does not mean we will ever tolerate injustice against the Hindus."

Bal Thackeray: unlikely patron saint for India's most industrialised state

Political expediency has forced the Shiv Sena to be more pragmatic about foreign investment and liberalisation of the economy. "The government has no hang-ups about foreign investment coming into any field, as long as it is permitted by the law of the land," says Mr Yashwant Bhave, industries development commissioner.

"The Shiv Sena is better for reforms than the Congress was because they are less plagued by ideological conflicts within the party," says a leading Bombay industrialist.

While the government sent conflicting signals to industry when it scrapped the controversial Enron power project which had been cleared by the previous Congress state government, it has firmly put its ally, the BJP, in its place by insisting that foreign investment is welcome in any sector, whether it is for cold drinks, chewing gum, or potato chips. A powerful lobby in the BJP has been insisting that foreign investors should not be allowed into "low priority" sectors such as fast foods or luxury items. "We would like to achieve overall growth and prosperity, and for that, we are clear that we have to take advantage of every source of help, whether it is from home or abroad," says Mr Desai. "There is no doubt that we are nationalistic, but our doors are open to international co-operation for mutual benefit, as long as we don't sacrifice our sovereignty. Shivaji, our saint, encouraged trade with the British, French and Dutch three centuries ago, but warned his lieutenants that they should not be allowed political power. We feel the same towards foreigners."

Industrialists, who initially feared that the new government would rob Maharashtra of the political stability that was its biggest asset, have no doubts that the Shiv Sena government is now committed to free market reform.

"Nobody's asking questions about stability any more," says Mr Anand Mahindra, deputy managing director of the Mahindra group, the tractor, vehicle, steel and engineering company which has based most of its operations in the state. "The biggest gift of this government has been that it has not in any way eroded that stability."

Shiv Sena's critics say that the tiger has only temporarily been caged, and that the organisation's exclusionist raison d'être is bound to surface sooner or later. "The ministers still raise their hands, Third Reich style, and salute each other with *"Jai Maharashtra* (Hail Maharashtra)!" says a senior trade union leader in Bombay. "They still maintain that Maharashtra is only for the Maharashtrians. They have already started imposing moral values on us, closing down cabaret joints and banning dancing girls after midnight. It is difficult to forget the violence they have perpetrated in the state even if they do support a free-market economy."

PROFILE **Sicom**

Scope may be too wide

One of the joints in Maharashtra's machinery to boost industrial growth and improve infrastructure is Sicom – the state industrial and investment corporation of Maharashtra – which in 30 years has matured into a peculiar hybrid of merchant bank, industrial co-ordinating agency and consultancy.

Created in 1966 as a development arm of the Maharashtra government, Sicom was designed as a pioneering corporatised agency to blend investment advice and package incentives for the state's more backward areas. Two years ago the state government floated 51 per cent of Sicom's stock to give the agency commercial freedom. Since then, it has put itself in the forefront of the state's drive to draw private investment into infrastructure. In the last year alone, Sicom has taken a leading role in everything from Maharashtra's road and ports privatisation, to forging a new joint venture intra-state airline.

The question is whether this multi-faceted agency can prosper on a wholly commercial basis, pushed on one hand by competition from India's numerous and bigger industrial lenders, such as the giant Industrial Development Bank of India or ICICI, which are both also based in Bombay, and pulled on the other by its persisting mandate to pursue state government policies.

The newly floated Sicom has made a promising enough start. For the last reported year, the corporation, which has an asset base of Rs7.35bn, returned a net profit of Rs270m, up 45 per cent on 1993-94, largely from term lending to smaller state-based companies in chemicals, plastics, metals, engineering and most of the state's other core industrial sectors.

Last year Sicom sanctioned loans totalling Rs5.3bn, disbursing Rs4.1bn, increases respectively of 106 and 123 per cent on a year earlier. Most term lending is short or medium term at market interest rates. "We are the first such body of this type, the first to come out with packages of incentives, the first to be privatised, and the most profitable," says an unblushing Mr Vinayak Mhetras, a Sicom industrial promotion manager.

But Sicom is also becoming a diversified agency, raising the question of whether it can successfully manage the huge recent broadening of its scope.

Term lending to industry traditionally accounted for 60 per cent of Sicom's income, much of it project lending.

Last year, however, such lending accounted for just under half of income, the remainder coming from short-term lending, leasing, equipment financing and a limited number of direct equity investments.

Aside from lending, the agency offers Indian and foreign investors help on projects, but with an emphasis on guiding them towards less developed parts of the state, relying on sales tax exemption incentives for locating in more "backward" areas, but also through its close inherited links with both government and the Maharashtra Industrial Development Corporation, the state-run body which establishes industrial zones in such regions. "We've had quite a bit of success taking multinationals and big Indian companies into places like Nagpur and Aurangbad," says Mr Mhetras.

But Sicom's scope is broadening. This year it is co-ordinating the first bid rounds for privatisation of seven minor ports. Recently, it also took an equity stake with the government in a new Maharashtra State Road Development Corporation, designed to oversee the privatising of a series of big highway projects. In mid-August, Sicom in a joint venture with a hitherto undisclosed private company will start up Maharashtra Airways with a fleet of three aircraft to serve smaller but growing industrial centres.

Sicom's managers speak of "emerging to compete with the all-India financial institutions", such as IDBI, ICICI or SCICI, while also "creating its own niche". But the ambitious spread of its activities raises some eyebrows. Sicom's management is widely respected, but according to one Bombay banker: "There's a danger they've got too many fingers in too many pies – they may find there's a limit to how far they can leverage off their core activity, the lending."

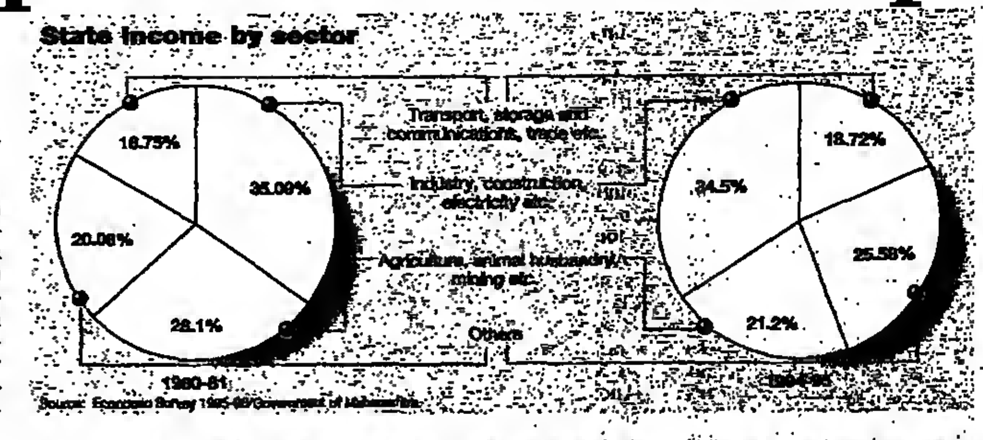
There is also the potential strain between the government's developmental priorities and commercial imperatives. "The government has to realise Sicom is no longer their personal fiefdom – there's an innate tension between viability and the emphasis, for instance, on lending to companies setting up in 'designated growth areas', which often means places no-one really wants to invest."

Mark Nicholson

■ **Industrial policy:** by Shiraz Sidhva

A fast pace needed to keep up

The new government has ambitious plans to maintain the state's leading position



Source: Economic Survey 1995-96/Government of Maharashtra

With Bombay, India's commercial and financial capital at its heart, Maharashtra continues jealously to guard its position as India's most industrialised state. The state, with its long history of entrepreneurial activity, accounts for over 23 per cent of the country's gross industrial production.

With the best irrigation, power supply and communications network in the country, a large reservoir of skilled manpower and management personnel, and its proximity to ports and markets, Maharashtra has always been favoured by foreign investors, attracting foreign direct investment worth Rs22.51bn since July 1991.

> The state runs the risk of being a victim of its own success

But, as the state's top industrialists point out, Maharashtra risks becoming a victim of its own success. "Maharashtra is choking on its own success," admits a BJP MP from the state. "Development is never without a price, and global companies are shying away from Bombay because property prices are totally unrealistic and the quality of life just doesn't match up."

"Maharashtra, like any other market leader, is under siege, and needs to be wary of complacency," says Mr Anand Mahindra, deputy managing director of Mahindra and Mahindra, one of India's top industrial groups. "As business turns more global with the advent of multimedia, we need to benchmark globally to meet the demanding standards of multinational companies and attract new investors. We have to determine changing business needs and pinpoint what new investors are looking at, to take a completely fresh look at how we present our state to investors."

Maharashtra's new industrial policy, introduced by the Shiv Sena-Bharatiya Janata Party right-wing coalition in December 1995, eight months after it assumed power in the state, seeks to address the crucial problem of inadequate infrastructure by developing nine industrial townships in the state. "The basic approach or mission statement of our policy is the empowerment of people at all levels," says Mr Liladhar Dake, industries minister.

"We intend to do this by extending strong support to liberalisation, and providing infrastructure in developing regions in the state so that growth is not concentrated only in some areas, putting a strain on infrastructure. The private sector will be encouraged to participate in our developmental efforts, and the state will act as a facilitator, not a controller, with the simplification of procedures and more transparency.

"We will create centres of excellence in specific growth areas in the nine locations earmarked for development," says Mr Yashwant Bhave, industries development commissioner. "There is a shift in emphasis from the cities to these areas of development, so that industry can be dispersed throughout the state, instead of being concentrated in one or two regions and straining the infrastructure there."

Mr Dake says that the new state government is trying to "telescope the development of the past 33 years into the next three years." Its development corporations have acquired 33,000 hectares of land in 18 months, equal to the land acquired over the past three decades.

The industrial townships, situated near large towns, will span areas ranging from 2,000 to 7,000 hectares. Two locations at Butibori near Nagpur and Mahad near Raigad will be ready this year, four more are expected to be developed by 1998, and the rest in five to seven years.

The townships will be financed by private sector and foreign investment participation, and bonds and loans from financial institutions such as the Industrial Development Bank of India. Other locations include Sinnar (Nasik), Nandgaon Peth (Amrawati), Walunj-Shendre (Aurangabad), Kushnur (Nanded), Kagal Hatkanangale (Kolhapur), Nivli Phata (Ratnagiri), and Indapur near Pune.

The Shiv Sena-BJP government believes that as a result of the dispersal of industrial infrastructure, local employment will grow. The government plans to set up technical institutions to train potential employees in these areas.

It hopes to link small towns in every district in the state by giving incentives to private airlines. From August 15, an airline will connect Ratnagiri, Jalgaon and Kolhapur districts. Private helicopter operators will be encouraged to venture into the state's vast hinterland, providing air links where none existed, and easing congestion on the roads.

Bombay, which houses a majority of large Indian and multinational companies, and accounts for 80 per cent of all stock market activity in India, will be promoted as an international financial centre.

"Time-wise, we are ideally placed between Tokyo, London and New York, and there is no reason why Bombay cannot become a powerful international financial centre," says Mr Dake. Since more than half of the city's 13.5m people live in slums, these areas will be "redeployed and redeveloped", according to the minister.

The state government has ambitious plans for road privatisation and the opening up of sea routes along the state's coastline. Eight of the state's 48 ports will be privatised. A comprehensive water-harnessing programme to utilise water resources in the optimum manner for irrigation schemes is another important part of the state's industrial development.

Power projects have been accorded high priority. Apart from the controversial Enron power project at Dabbol, a 410MW project built by the Reliance group at Patalganga is expected to go onstream by 1997. Special emphasis is being accorded to the development of infrastructure from tourism, and the building of airports and jetties.

State officials say that though the Shiv Sena-BJP government is keen to push reforms through, many delays are caused because of inadequate liberalisation at the centre. "We want to do a lot, but many things are beyond our control, with approvals and controls still with the central government, which does act as an impediment. For instance, all foreign exchange approvals are still needed from the centre, and Indian currency is not fully convertible, impeding smooth foreign investment flows," says an official from the industries ministry.

"We are more consolidated, more focused in our approach to industrial development than the previous government," claims Mr Dake. "We don't say we will not allow foreign investment in this area or that: we have no such hang-ups. We welcome investment in any sector as long as it is within the law of the land," he says.

It remains to be seen how quickly Maharashtra's new industrial policy will be implemented.

"Maharashtra is going to have to run to remain where it is in the race for foreign investment into India," concludes Mr Mahindra.

■ **Nasik:** by Naazneen Karmali

Centre on a roll

Agro-processing companies would be welcomed since agriculture is a key activity

Ford Motors' first Indian made Escort cars will roll out soon from a factory in Nasik, a City located 170 kms from Bombay in western Maharashtra.

Preparing for launch day, Ford executives are working closely with their counterparts at Mahindra & Mahindra, a local vehicle manufacturer which is Ford's Indian partner. Mahindra's 300-acre factory site, of which 90 acres have been earmarked for the Escort protect, is buzzing with activity. This finds its echo in downtown Nasik where shopping plazas have sprung up and billboards urge visitors to try the comforts of Nasik's newest hotels.

Since early 1995, three have opened their doors for business, of which one is a Quality Inn franchise and another an execntive category hotel owned by the Taj group. Occupancy is not a problem since most rooms have been booked by Mahindra for long-staying guests from Ford.

"Our car project, which represents an investment of Rs2.5bn, is set to give a further boost to Nasik's economy and marks another milestone in the city's evolution as an industrial centre," says Mr J.A. Kulkarni, Mahindra's operations manager.

When the Mahindra group establisbed the factory 15 years ago to assemble trucks, they were among the first big companies in Nasik. At the time, Nasik attracted more pilgrims than business visitors. Situated on the western banks of the River Godavari, Nasik is considered a sacred place by the Hindus where, according to the scriptures, the Hindu god Ram lived in exile for twelve years. Pilgrims come to take a dip in the holy river or immerse the ashes of their dead, providing a livelihood for the local priests.

But businessmen who drive in from Bombay – a nerve-racking, four-hour journey on a narrow road jammed with trucks – go directly to the large industrial estates on the outskirts. These began to be developed in the late 1960s when the state government identified Nasik as a potential industrial district and offered incentives such as tax rebates to attract investment.

Cramped for space in Bombay, companies that wanted to expand had no option but to look elsewhere. For many, the first choice was Pune which has become the second largest industrial city after Bombay.

With overcrowding and rising real estate prices in Pune, Nasik has emerged as an attractive alternative. Its conducive industrial climate and peaceful labour history have attracted many large companies whose suppliers gradually moved in as well.

Both cities ara almost equidistant from Bombay. But whereas Pune's roads are clogged with traffic and its infrastructure is straining to cope with the influx, Nasik retains the relaxed charm of a small town where people can still bicycle to work. "Business is booming. Nasik is what Pune used to be ten years ago," says Mr J.R. Bunnargikar, a businessman who has lived in both cities.

According to Mr Hunnargikar, who plays an active role in the Nasik Industries and Manufacturers' Association (Nima) of which he was president last year, there are over 6,000 small-scale units, employing more than 21,000 people. Many of these small enterprises are vendors to larger companies and Nima's 1,100 members include both big and small companies.

"This well-established network of suppliers is an added advantage for a company that decides to locate here," says Mr R.S. Dharkar, Nima's honorary secretary. He cites the example of Samsonite which has chosen Nasik as its manufacturing base because VIP Industries, a local luggage maker, has a large factory and vendor network there already.

Another recent entrant is Unilever which set up an ice cream factory last year at Sinnar, Nasik's newest industrial zone. Spread over 250 hectares, Sinnar is being expanded further by 700 hectares. These newcomers are diversifying Nasik's industrial base which consists mostly of engineering companies.

Mr Dharkar says that they would like more agro-processing companies since agriculture is a sizeable activity in the region. Nasik is India's grape capital, accounting for 60 per cent of the country's total production. These are sold in local markets and exported. Nasik's farmers also grow onions and sugarcane and have recently discovered that the climate is suitable for strawberry cultivation.

Nasik's businessmen fear that rapid growth will pose problems if the existing infrastructure is not geared up. In the last decade, the city's population has doubled to over one million. Commuting between Nasik and Bombay is a nightmare by road and though there is a rail connection the trains are irregular. "A four-lane highway has been planned but no real work on it has begun. We must have a daily shuttle train to Bombay and also desperately need to be air linked to other cities," says Mr Dharkar.

Another problem companies face is recruiting skilled workers. Nasik has engineering colleges but lacks a technical training institute so companies have to train their workers on the shopfloor. Mr Dharkar says that Nima has asked the state government for help in setting up a specialised training institution.

Agriculture
Sown area in millions of hectares

	Maharashtra	India
Net sown	18.0	[illegible]
Foodgrains	13.9	[illegible]
Cotton	2.7	[illegible]
Sugarcane	427.0	[illegible]

Source: Economic Survey 1995-96/Government of Maharashtra

■ **Investment:** by Mark Nicholson

Other states catch up

Figures suggest that Maharashtra may no longer be top destination for investors

Calculating whether Maharashtra is still India's top investment destination has become a compelling pastime for some. The state's government is determined to combat a view recently gaining currency that its pre-eminence is on the slide. The view gained publicity and credence with the decisions of Mahindra & Mahindra, the otherwise Maharashtra-based vehicle maker, and Hyundai, the South Korean carmaker, to site big greenfield car plants in the southern state of Tamil Nadu, rather than near the auto hubs of Bombay or Pune.

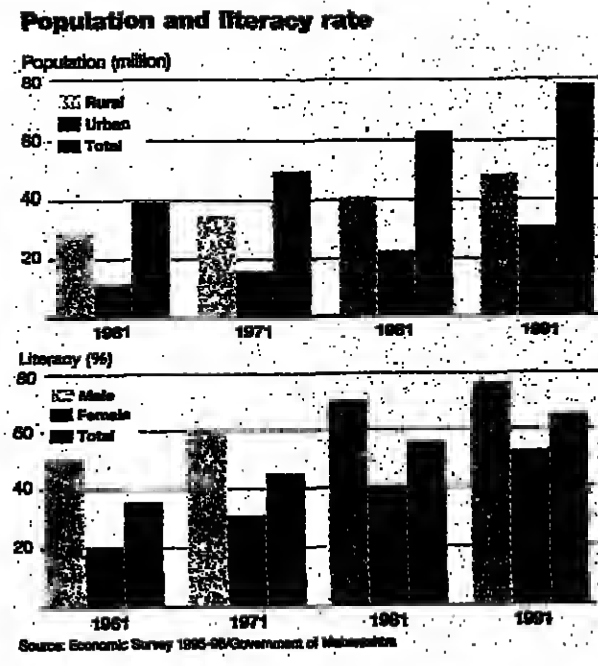
Then, as a bulletin from the independent Maharashtra Economic Development Council put it, came the "shocking news" from the authoritative and also independent Centre for Monitoring the Indian Economy, that "Maharashtra has been uprooted from the number one position on the projected investments front and has tumbled to fourth place, behind its long-time rival, Gujarat and even Karnataka and Orissa". It was bad enough to fall second to its traditional rival and industrialised northern neighbour Gujarat in the investment virility stakes, but Orissa? Poor, rural Orissa way out there in the east?

The CMIE figures for May 1996 showed that in terms of projected investment – that is approved investment – Karnataka had approved Rs1,114bn worth of projects, Gujarat Rs1,034bn, Orissa Rs1,010bn, and Maharashtra just Rs1,005bn worth.

Figures for projects "under implementation" were slightly more favourable, showing Maharashtra second only to Gujarat, which had Rs618bn worth of projects under way (15 per cent of the national total) against Maharashtra's Rs498bn (12 per cent). The CMIE concluded that industrial investments in Maharashtra peaked in 1993 and have slowed since.

Maharashtra's government claimed otherwise. Suggesting that the CMIE's conclusions, "like all data, should be read with a little care", it said its own and the central government's figures showed Maharashtra had received the most "Industrial Entrepreneur Memoranda" (declarations of investment intent) and actual Letters of Intent – 4,900 – of any state. Gujarat trailed, it said, with 4,032. The pace had not slowed, said the government, claiming Maharashtra led as a destination for foreign direct investment, with a total of 127 proposals, worth Rs22.5bn.

Population and literacy rate



Source: Economic Survey 1995-96/Government of Maharashtra

■ **Dabhol power plant:** by Mark Nicholson

U-turn that saved the project

Generating capacity must be increased if demand is not to outstrip supply

When the $2bn-plus Dabhol power project gets the final go-ahead from India's United Front government – expected as this went to press – it will have become about the most politically approved project in Indian history.

It will have been approved at state level by Maharashtra's former Congress party government and then by the present Bharatiya Janata party and Shiv Sena Hindu nationalist alliance. At national level, it will have received the nod from, successively, Congress, BJP and now United Front governments: together comprising virtually every party of significance in Indian politics.

This is a little ironic, given that it was one famous act of disapproval which has led to more than a year of delays, reviews and re-reviews: that of the present BJP-Shiv Sena government, which criticised the project during its election campaign early last year as too costly, "corruptly" negotiated and environmentally unfriendly. It then "scrapped" the project on being elected. No work has proceeded at the site, more than 100km south of Bombay, since last August.

"Dabhol" at that point became a national icon, on one side rallying economic nationalists suspicious of the post-liberalisation arrival of foreign investment, on the other a warning signal to foreign investors that four years into liberalisation, there remained deep-seated political fears in India about the whole reform process.

When it was "scrapped", a third of the power plant construction had been completed on what was then the first of India's "fast track" power projects to have negotiated central government financial guarantees and closed its financing package. Under pressure from local industrialists and a realisation that Maharashtra urgently needed the more than 2,000MW Dabhol would bring on stream, the BJP-Shiv Sena government made an adroit U-turn, offering to renegotiate the project.

This it did, with a panel of power experts commissioned by the state government and Dabhol agreeing to a reviewed formula which would cut the project's overall cost to $2.5bn from $2.8bn, the power tariff to Rs1.86 a unit of power from Rs2.40 and expand the net capacity to 2,184MW from an initially envisaged 2,015MW.

The cost cuts came mainly from a $330m fall in generation equipment prices, part of a global trend over the period. The tariff cuts were made possible partly by spreading costs over the expanded plant's output. The $500m cost of a LNG regasification plant was also shifted from being originally a capital cost to be covered under variable costs. Otherwise, Enron executives say, the project remains essentially as first agreed by the later deposed Congress government of Mr Sharad Pawar back in 1994-95.

Once approval is granted by New Delhi, Enron believes the first naphtha/distillate-fuelled 740MW phase of the project could be commissioned within 30 months. Commissioning of the full 2,184MW plant, which would then be fuelled by imported liquefied natural gas, is envisaged by 2000.

The financing for Dabhol, a project led by Enron Corporation, the US energy group, with Bechtel and GE of the US as equity partners, remains in place and the state government is confident only slight delays remain before work can restart. "Central government has cleared it," says Mr Dinesh Afzulpurkar, the state's chief secretary. "It's only the procedure that's taking time – a formality."

For Maharashtra, one of the few states to have reliable power for its industry, the project is the most advanced of several that are intended to boost power generating capacity from 11,800MW towards a goal of 21,000MW by 2001.

Last year power supplies rose to match demand increases of more than 11 per cent, but keeping pace with the demand will depend on Dabhol coming on stream as scheduled, along with commissioning of further megaprojects. Next in line and awaiting clearance of their power purchase agreements are a 1,082MW project from Nippon Denro Ispat, the Indian steel and engineering group with GEC of the UK, and a 410MW plant to be developed by Reliance, India's biggest corporation.

The Maharashtra State Electricity Board foresees a total of Rs900bn in power investments to reach its capacity goal for the next five or more years.

However, the Dabhol project may face further hurdles. Since May 1, under the agreement with Enron, the state government has been bearing project suspension costs of more than $200,000 a day. These arise partly from legal costs, interest charges, cost escalations and the costs arising from the suspension of work to the hundreds of sub-contractors to the project – India's biggest single foreign investment project to date. Bechtel, which will build the plant, alone has more than 500 subcontractors. Negotiations on how this cost is to be subsumed have yet to be broached, and they may prove thorny. Mr Gopinath Munde, the power minister, suggested last month that the state government may have "means" to avoid having to make the payments.

Bombay's road infrastructure is clogged – but the government aims to do something about it Picture: Tony Andrews

■ **Roads:** by Mark Nicholson

Industry held back

The state government hopes to attract foreign investment to improve its roads

The two choked hours that it can take to drive from Santa Cruz airport in Bombay to the city's downtown business centre will impress on even passing visitors the need for more, wider, better roads in Maharashtra.

Road infrastructure is clogged in Bombay and, in the hinterland, the poor state of overstretched and inadequate main routes is among the chief constraints on attempts to push industry further afield, towards the centres of Pune, Nasik, Aurangabad and, more distantly, Nagpur at the state's eastern extreme.

Pune, for instance, is a centre of India's car industry, the home of both Bajaj Autos, India's biggest two- and three-wheeler maker, and Telco, the truck and carmaker. But it is a three- or four-hour drive from Pune to Bombay's ports, 160km away.

The state government does not need reminding of such issues. A proposed eight-lane Pune-Bombay highway has been a "priority" project for the past eight years, but one dogged by political differences, legal problems in land acquisition and policy pitfalls: no government has so far managed to present a defined and legally clear-cut development proposal for the road to meet contractors' requirements.

Unsurprisingly, Mr Dinesh Afzulpurkar, Maharashtra's chief secretary, puts the Bombay-Pune road, along with three other proposed new highway links to the north, south and north-east, as top of a list of the government's "main thrusts" for attracting private sector financing. "The government has decided in a big way to attract foreign investment to these projects," he says.

Tender documents for the Bombay-Pune road, he says, will be issued later this summer with the aim of work starting by January 1997. Executives at Sicom, the recently-

> The government aims for work on the Bombay-Pune road to start in January 1997

privatised government industrial agency, estimate the cost will be around Rs16bn. The other routes – Bombay to Goa, Ahmedabad and Nasik – would be tendered from spring 1997. But construction contractors remain sceptical.

Developers cite a range of problems. First is the question of whether the government can successfully, and without delaying legal opposition, acquire the land for the highway. Mr Afzulpurkar says this is in train and will be completed in time for the tender, perhaps by August.

There is then the question of what land rights will be offered to prospective bidders, who argue that revenue from tolls alone along the proposed roads are not likely to suffice to repay investment costs. They have been arguing for rights to develop land alongside the proposed highway as essential to making the project remunerative.

This too, Mr Afzulpurkar says, will be addressed. If land cannot be offered alongside the highway, he says the government "is thinking" of offering bidders tracts of land to develop commercially elsewhere in the state. This would be handed over to the developers for the length of the lease for the road proper, which is to be tendered on a Build-Own-Operate-Transfer basis.

But as contractors point out, it is not clear that the government has yet itself acquired such commercial land to put on offer, nor is there any indication where in Maharashtra it lies.

Moreover, the lease on the offered land, according to Mr Afzulpurkar, would be for only as long as that for the BOT scheme – a period the government will not set and which will itself form a criterion for the award of the contract: the shorter the offered BOT period, the better, suggests Mr Afzulpurkar.

Contractors say they are not holding their breath, until all such matters are clarified, legally backed and in cold print. "Only a beginning has been made, we are still nowhere near knowing whether these projects are financeable," says the general manager of one Indian construction group.

■ **The Konkan Railway:** by Shiraz Sidhva

Engineering marvel nears completion

A project dreamt of over 100 years ago has defeated impossible terrain to become reality

The Konkan Railway, stretching more than 760 kilometres along India's picturesque west coast is one of the most ambitious projects undertaken anywhere in the world. By December this year, this missing link in the world's largest railway system will be completed, connecting the three coastal states of Maharashtra, Goa and Karnataka, and bringing with it industry and development.

For Indian Railways, with a network which currently spans 61,000 kilometres, the Konkan coast is the last frontier, thought unconquerable until a few years ago because of the difficult terrain it covers. Hundreds of rivers flow through mangrove swamps at the foothills of the Western Ghat mountains to meet the Arabian sea, making the land a nightmare for engineers.

A survey exploring the possibility of a railway line along the 1,000-km Konkan coastline was undertaken as far back as 1882, but it was not till 1991 that work began on what has been the largest railway project in the world in the last 50 years and the largest in South Asia this century. The project was essential if the Konkan region was to be industrialised.

The Konkan Railway project was designated a fast-track project, for which funds allo-

> There has been tunnelling through hard rock and through alluvial soil that was too soft to hold

cated in India's annual rail budget would have been insufficient. As a result the scheme has been financed jointly by the central government, through the ministry of railways, and the state governments of Maharashtra, Goa, Karnataka and Kerala.

Though the railway does not run through Kerala, it connects to the Central Railway line extending to Cochin and Trivandrum, and is expected to bring great advantages to the state. The Konkan Railway Corporation, a public sector undertaking, was set up in June 1990; under the ministry of railways to undertake the project.

A marvel of civil engineering, it has involved constructing 179 large bridges and tunnelling through 82.6km of hard rock that had to be blasted, or through alluvial soil that was too soft to hold. The terrain was as treacherous to build on as the journey will be breathtaking, with the railway line meandering through foothills and endless tunnels to emerge on bridges spanning deep gorges.

"What we have achieved is nothing short of a miracle," says Mr E. Sreedharan, chairman and managing director of the Konkan Railway Corporation. "I challenge anyone who says it could have been done faster in the circumstances." The rocky, densely forested and inaccessible land of the Konkan is so untouched by development that the local people were forced to migrate to Bombay or Pune to look for jobs.

While the project itself has created thousands of jobs in the region, the prospect of a railway line has already attracted about 126 projects to the Konkan, with a total investment of over Rs505bn.

The projects include power plants (Enron Power, Tata Power), iron and steel plants (Nippon Denro Ispat, Jindal Iron and Steel, Kalyani Konkan Sponge), petroleum and petrochemical projects (Bharat Petroleum, Hindustan Petroleum, Hindustan Organics, and textile mills (Orkay Industries, Ratna Silk Mills, Modern group).

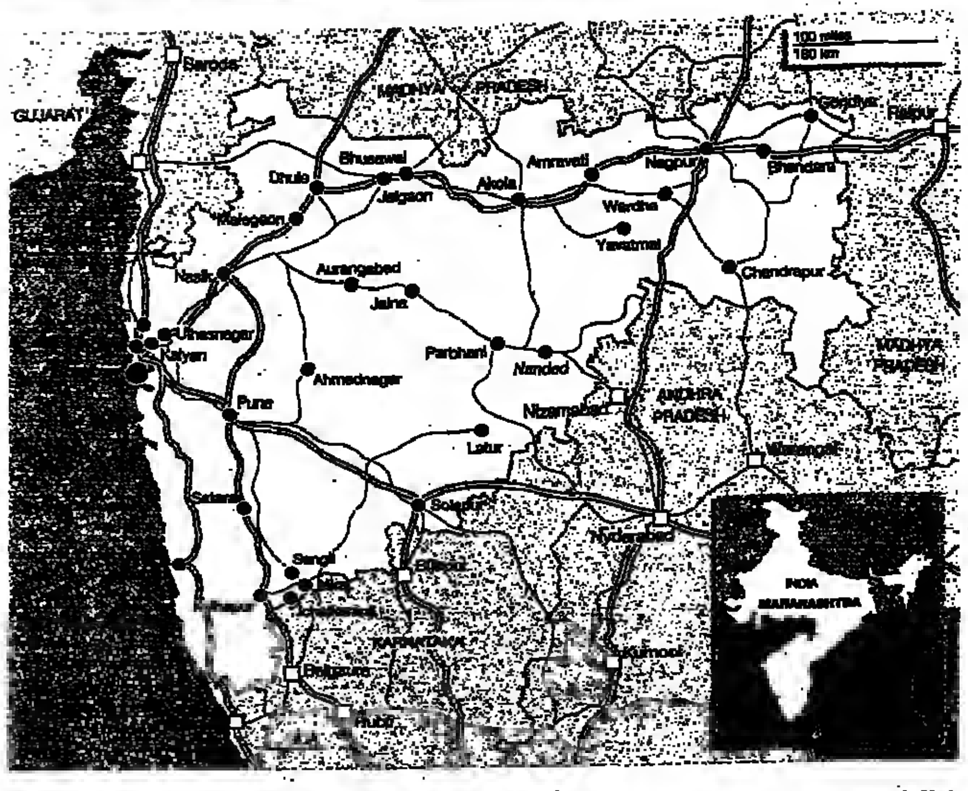
The region is rich in mineral resources such as bauxite, iron ore, chromite, manganese ore, and silica, which have been virtually untapped because of inadequate infrastructure. The fertile Konkan soil, the home of the Alphonso mango, is ideal for raising commercial crops such as cashew and areca nut and for supporting agro-based industry.

The railway will provide benefits in terms of travelling time, making the region accessible to tourists for the first time. The virgin beaches along the Maharashtra and Mangalore coast offer ideal locations for beach resorts, and the Western Ghats, rich with forests, are ideal for trekking and climbing. A luxury train for tourists is being planned by the Indian Railways, to traverse the route.

The 41-hour train journey from Bombay to Mangalore, traversing a circuitous route of 2,041km will now be cut down to a 914-kilometre journey which will take only 15 hours. The distance from Bombay to Cochin will take 24 instead of 36 hours, and Bombay to Goa, only ten hours instead of 20. This is assuming that the trains travel at a speed of 100kph, though the lines are being built for a speed potential of 160 kph.

Indian Railways has installed a sophisticated communications network, which computerises all operations including train control, scheduling and ticketing for the first time.

"It's the work of a lifetime, compressed into five years," says a senior engineer on the project. "Environmentalists have criticised the project, saying it will cause untold damage to the region, but think of the benefits. The development versus environment debate will continue, but nobody can deny that the Konkan Railway is a technical and engineering feat."



■ **Setting up in Bombay:** by a special correspondent

A good office is so hard to find

With prices rising, landlords have a tendency to nibble away at the terms of a deal

Setting up an office in Bombay is not an exercise for the faint-hearted. Except for those with enormous budgets, who are able to pay the highest office rents in the world, finding affordable and "suitable" office space in the island city taxes patience, time and then more patience.

A dearth of adequate office space, landlords that range from the intransigent to the merely irrational, and inevitably drawn-out negotiations are just some of the hurdles a prospective tenant has to face.

Professional real estate agents say that, if you are willing to pay premium rents, you can find a suitable office in four to six weeks. This is probably true. However, for those on modest budgets, it can take up to six months to find and fully set up an office. Even then, "suitable" is a relative term in the Bombay property market where office accommodation ranges from the barely adequate to the horrific.

While Bombay's office rents outrank Tokyo and New York, it has no world class buildings that are available for rent. The poor quality of the city's offices shocks many tenants used to the City of London or Manhattan.

Many companies simply do not even bother to look for office space, setting up base in the city's luxury hotels. The management consultants McKinsey, for example, have virtually taken over a floor of the five-star Oberoi hotel in the city for the past four years.

However, for most companies this is not an option and the protracted saga of this correspondent's attempts to secure office accommodation is by no means unusual.

An indication of what to expect came with my first office – a desk in an existing space already taken up by a sister company. The building was in the Fort area, once the main business district of the city before it was superseded by Nariman Point in the 1980s.

Like so many fine old buildings in the area, it had been gutted through a break-up into a labyrinth of small tenancies. Without any collective maintenance, the building was subsiding towards inevitable collapse.

To get to the office in the morning meant climbing a dank, dark stairway stained with betel nut juice. One had to step over families that slept and cooked on the stairs.

Inside, the office was tolerable enough, but the state of the communal areas was horrific. There were only two toilets, without running water, for four storeys of office space and innumerable mezzanines.

> To get to the office meant climbing a dank, dark stairway stained with betel nut juice

I soon realised that this office was not a long-term option. However, it was by no means the worst of the alternatives at which I looked. These, of course, were limited by budget and location.

Many companies are moving out of the downtown area in south Bombay to the suburbs where rents are cheaper and larger spaces are available. A suburban location is also more convenient for local staff, saving much commuting time.

Continued on facing page

■ **Ports privatisation:** by Mark Nicholson

A do-it-yourself solution

Companies can avoid frustrating delays at the big ports by developing their own facilities

Mr Pradeep Kapoor, managing director of Trafalgar House Construction India, gives a simple example to illustrate why he believes the Maharashtra government's new policy of ports privatisation is likely to succeed.

In recent years, he says, the Indian Oil Company (IOC) had found that port congestion at Kandla, a major port in neighbouring Gujarat, was such that the company paid between Rs120m-Rs150m a year in demurrage charges alone.

Under the Gujarat government's policy of ports privatisation, IOC then commissioned Trafalgar House to build a captive jetty near Kandla. "One year's demurrage charges was less than the total cost of that jetty," says Mr Kapoor. He says the IOC case is common. A large Gujarat-based state fertiliser company also based near Kandla, and also paying demurrage charges of up to RS150m a year, saw the IOC jetty, and immediately commissioned its own.

Tales of delay at the ports are legion across India, where four years of reforms have led to compound growth in trade volumes of 20-30 per cent over the past four years. Virtually all "major" ports are operating – poorly – above capacity.

"There's a tremendous amount of excitement about ports projects," says Mr Kapoor, which he says is premised on exactly this congestion. "Companies are saying, 'For the last 20 years my life has been so miserable that if someone gives me the opportunity to build my own port, I'll grab it'."

Earlier this year the state government offered exactly such an opportunity, following the lead of its northern neighbour and rival state Gujarat. In the expectation of receiving Rs650bn of fresh industrial investment along the its coast over the next few years, the state decided to offer seven of its 48 "minor" ports for privatisation. "Minor" ports fall under the state's aegis, unlike "major" ports, such as Kandla, or Maharashtra's two main import-export terminals at Bombay and Jaraharlal Nehru Port Trust, which are central government responsibilities.

The seven ports span the 720km extent of Maharashtra's Arabian Sea coast from Alewadi, north of Bombay, and the first to be tendered under the scheme, down as far as Redi, 210km south of the state capital, close to Maharashtra's border with Goa.

The state has already completed, or is completing, technical and feasibility studies for establishing all-weather ports in the seven locations, with drafts of between 6m-13m for vessels up to 30,000 dead weight tonnes.

Bids will be sought in succession for the seven ports, which will be offered for development on a Build-Operate-Own-Transfer basis with a 30-year tenure, extendable for a further maximum of 20 years. Port developers will be required to install both cargo handling and passenger transport facilities, with the state government committing itself to providing back-up infrastructure of roads, rail, power and other services.

To date, only Ratnagiri port of the seven has any industrial infrastructure - a small clinker jetty.

The rest are essentially fishing harbours, raising some questions as to how welcome such ports and attendant new industry might prove in otherwise rural coastal districts. Yet, although the Dabhol Power project, itself sited on the coast and near one of the seven offered ports, attracted some opposition from locals, state officials believe the developments will be welcomed as job-bringers rather than subjected to protests by locals. "Our experience is that people in such areas have accommodated industry," says one Sicom executive.

In every case, the aim would be for ports to be developed appropriately to the specific industries either already in place or planned for the area - a factor which contractors believe will also contribute to the success of the projects.

Big industrial groups operating close to any of the privatising ports, they suggest, might feel obliged to mount or join bids to complete the port, to ensure it fits their own requirements. "Industrialists are going to say, there's no way I can afford anyone else to build that port," says Mr Kapoor.

Some developers question whether, in the longer, term, running these smaller ports will prove profitable to the groups likely to invest in them. Like the installation of captive power plants, they argue, the developments help to clear an immediate and pressing infrastructural bottleneck, but risk ultimately adding to costs and creating new and uncharted management areas.

For the moment, though, both Indian and foreign groups have already approached Sicom with proposals for the first port on the block at Alewadi, a 9m-11m draught port 65km north of Bombay. So far Alewadi boasts only a small lighthouse, a couple of storm and warning signals and a customs official.

But even without privatisation, such smaller ports have seen their trade volumes increase markedly. The combined 48 minor ports handled 2.6m tonnes of cargo in 1994-95, up more than threefold on the 729m of a year earlier. Within a decade, the state government suggests optimistically, these little fishing ports will collectively be handling 50m tonnes of freight a year.

Container volumes to treble

While Maharashtra privatises the ports under its control, the Indian government is following suit. The two centrally-run "major" ports in the state – Bombay Port Trust and Jawaharlal Nehru Port Trust – are struggling to cope with surging growth in trade.

JNPT, the newer of the two, has therefore tendered for construction of 600m of new quay length and two berths offered on a 30-year Build-Own-Operate basis.

An investment of Rs60m is envisaged, says Mr Jose Paul, JNPT's acting chairman, which he says should allow for a trebling of present container volumes to 1m TEU (twelve-foot equivalent units) from the 339,136 handled last year. "Bombay is saturated, it will have to shed its excess," says Mr Paul. "Container traffic will have to gravitate towards the new port."

JNPT, commissioned in 1989, may be the newer port, but sited on the southern lip of New Bombay it has more room to expand than its more historic neighbour, Bombay Port Trust, which sits on the tip of congested South Bombay. Both are presently stretched. Bombay last year handled a record 34.03m tonnes of cargo and 517,000 TEU, up from 484,000 TEU a year earlier – running at 124 per cent of the port's designed capacity. Volumes at JNPT, meanwhile, were up 37 per cent last year, after growth of 47 per cent the preceding year.

Mr Paul says 30 companies or consortia have expressed interest in the expansion plan, of which he says seven or eight appear strong contenders. The tender stipulates that bidding parties have experience of running ports handling 500,000 TEUs annually and it includes productivity requirements.

Interest has been expressed by the UK's Felixstowe Port Authority, the Singapore Port Authority, P&O Ports Australia and several other international shipping groups. "We should be able to complete all the formalities and award the contract by December," says Mr Paul.

■ **Property:** by a special correspondent

A descent of 30% from the peak

Six months ago, office rents were the highest in the world. But demand has fallen sharply

The laws of gravity are finally starting to be felt in Bombay's over-inflated property market. Purchase prices on average have fallen by 30 per cent over the past year although there are signs that the slide in values may now be slowing.

A correction has long been overdue in this deeply distorted market where even shacks in the slums could fetch £5,000.

While the Indian economy started a process of liberalisation in 1991, the property market has remained subject to an overhang of socialist policies which tightened up the supply of land, artificially sending prices soaring.

> 'Bombay office rents had become the most costly in the world'

The extent of the property boom came to world attention with headlines that Bombay office rents bad overtaken Hong Kong, Tokyo and London as the most costly in the world.

A December 1995 Richard Ellis survey put total occupation costs for office space in Bombay at $1,799 a sq m a year compared with $1,408 for downtown Tokyo and $1,340 for Hong Kong.

However, the headlines have obscured the downtrend in the market over the past 12 months. The liquidity crunch in the Indian economy over the past year has seen investors, corporates and public sector companies either sell off property to raise cash or scale back new purchases.

Political uncertainty eurrounding the national elections has also deterred investors and companies, with many waiting to assess the stability and policies of the new United Front government before making fresh commitments. In addition, fluctuations in the rupee exchange rate have seen some overseas Indian investors take e more cautious approach to the market.

Speculative demand for property in Bombay has also fallen dramatically. At its peak, Bombay accounted for about 30 per cent of all demand for property in India.

However, Bombay's unrealistically high prices have seen the "hot money" shift towards other cities in India such as Madras, Pune, Bangalore and Delhi.

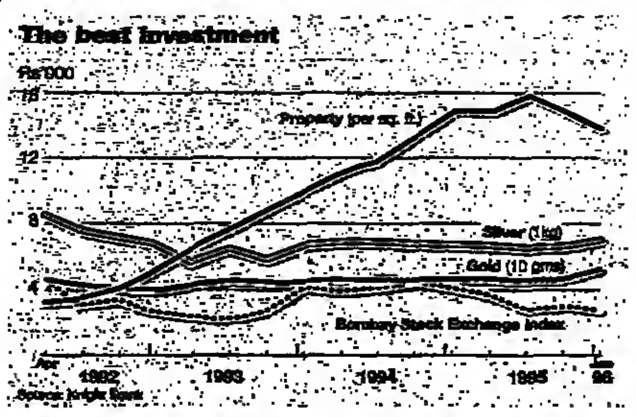
There are also signs that multinationals are being deterred by Bombay property prices. Companies such as Coca-Cola, Lehman Brothers and Ford are setting up headquarters in New Delhi, attracted by lower overheads and closer access to the corridors of political power.

"We are worried about the direction of property prices in Bombay over the next 12 months," one leading real estate agent admits.

"People are used to seeing Bombay property prices go in one direction – upwards. They are now learning that prices can also go down. Demand for property is still strong bnt prices are so unrealistically high at the moment that nobody can afford them."

Purchase prices in Nariman Point, Bombay's pre-eminent business district, have fallen from an average of Rs30,000 (£600) a sq ft to around Rs21,000 over the past 12 months. At the market's peak, some office space in Nariman Point was commanding Rs40,000 a sq ft. This compares with average prices of Rs5,800 a sq ft in 1990.

Residential prices also have fallen, although the slide has been uneven, hitting the top and bottom ends of the market hardest. The most talked-about building in Bombay, the new NCPA apartment complex, has been a prominent casualty.



The Tata group-developed complex, which overlooks the expanse of Bombay's seashore, is said to be one of the city's most upmarket buildings, although its apartments appear well below international standards of luxury accommodation.

A year ago, a four-bedroom, 3,450 sq ft epartment in the building would set you back $3m to $4m. Now euch are epartments are being offered for a mere $2.5m to $3m.

Office rents have yet to reflect fully the fall in purchase prices but have softened. Nariman Point office space has fallen from a quoted rent a year ago of Rs200 to Rs250 a sq ft per month to about Rs175 to Rs200 a sq ft.

Rents in other areas have shown similar falls. However, over the next few years Nariman Point rents may fall faster than other business areas. Mr Pranay Vakil, Knight Frank India managing director, says rentals in Nariman Point could fall to around Rs100 a sq ft over the next two years.

He says at least 250,000 to 300,000 sq ft of office space in Nariman could become vacant over that period as an increasing number of companies moves out to the suburbs or other cities.

"The corporate boardrooms and representative offices will still be there but there is no reason for all the back office operations to be located there given the current high costs," he says.

Mr Vakil says much of the back office operations of the financial sector will move to a new development area on the fringe of central Bombay called the Bandra-Kurla complex.

When fully developed, the complex will be nearly seven times the size of Nariman Point. Bandra-Kurla has the scope to contain abont 210 office buildings compared to the 34 at Nariman Point.

For companies, the attractions of Bandra-Kurla are clear, with purchase prices at least 25 per cent less than Nariman Point. The new complex also offers more modern, larger speces and the commuting time for staff is considerably reduced – no small factor considering Bombay'e congested traffic and overloaded public transport.

In addition, there are other factors which are likely to increase the supply of land for development which in turn will put pressure on property values.

Some of the ageing textile mills which take up about e third of downtown Bombay are at last starting to be redeveloped.

Political pressure from unions has long presented a stumbling-block for the redevelopment of the mills which were once the base of Bombay's industrial development. It has been a key factor in the tightening of supply of new land for redevelopment.

Initially, the development on the mills was industrial estates and residential buildings. However, some companies have set np office in the industrial estates.

Mr Nasser Munjee, Housing Development Finance Corporation executive director, cantions that property prices may actually firm in the current year if the economy picks up. He says that, as the supply of land is still so limited, any pick-up in demand is likely to see prices rise again.

There still remains the deadweight of legislative anomalies holding back supply and development of both residential and commercial space.

Bombay must be the only economic capital in Asia where it is illegal to build even e square inch of new office or commercial space in the majority of its inner-city area .

Under a policy of pursuing the decongestion of the city, state government regulations banned new commercial and office epace soutb of the Mahim Creek, e river that marks the border between south Bombay and the suburbs.

However, Mr Nasser says the regulations have proved counter-productive and it is time to lift them.

There are other regulatory restraints such as zoning regulations prohibiting the building of new residential developments within 500 metres of the coast.

They were initially introduced in the late 1970s to protect the coastline in such states as Kerala and Goa but have since been applied to metropolitan areas as well.

> The restraint is the city's various state rent control acts

However, the most notorious and significant restraint on development in the city is Bombay's various state rent control acts.

Introduced in the 1940s, they make it extremely difficult for a landlord to evict a tenant who is determined to stay in his eccommodation or even raise rents to reflect inflation or market values.

The result has created some unique anomalies. Some tenants who took up leases in the 1940s to 1960s pay peppercorn sums as low as £10 a month for bomes in the best parts of town while their immediate neighbours pay some of the highest rents in the world.

Landlords with low-rent tenants have virtually no incentive to maintain their property. All around Bombay are buildings crumbling into disrepair and each monsoon season brings a toll of collapsed edifices.

One local real estate agent says there are thousands of apartments locked up empty aronnd Bombay simply because landlords are afraid they will not be able to reclaim their property from their tenants.

"Even if you have a driver living in your garage for 20 years, it is virtually impossible to evict him from it," he says.

The real estate agent says that even if someone illegally seizes part of a landlord's property, eviction through India's slow-moving court system could still take 10 to 15 years.

The rent acts have survived because of enormous political pressure on the state government to maintain them.

However, Mr Nasser is hopeful that a solution to unwinding the rent acts may be found over the next few years. He says they may be lifted on new tenancies in the near to medium future and gradually phased out for existing tenancies after giving first a five-year notice period of the changes.

The local real estate agent is sceptical though, saying there are too many vested interests to see e lifting of the rent act. "Many politicians have made a lot of money out of rising property prices," he says.

However, there are also signs that at least one legislative restraint on development may be eased. The Urban Land Ceiling Act, which limits ownership of sites in all metropolitan areas to a maximum of 500 sq metres, appears set to be overhauled.

The act was brought into effect in 1976 by then prime minister Indira Gandhi with the socialist aims of preventing concentration of urban property in a few hands, deterring property speculation, discouraging the construction of luxury houses and ensuring an equitable distribution of scarce building materials.

The act restricted the capacity of developers to consolidate land blocks although some residential development could proceed if a set portion of it was handed back to the government.

Mr H.D. Deve Gowda, the new Indian prime minister, is said to be a long-time opponent of the act. However, real estate agents caution that the impact of any overhaul may be more psychological given that some development could go ahead already.

There also are other anomalies holding back property development.

By international standards, the maximum allowable floor space that can be constructed compared to plot size – the floor space index (FSI) – is very low, restricting the scope for major projects. Bombay Municipal Corporation has moved to allow developers to increase the FSI on developments by introducing transferable development rights.

If the developer undertakes such projects as slum redevelopment or a school, they gain development rights which can be transferred to increase the size of other developments. However, the TDRs only apply to residential projects and only in some areas of the suburbs.

Perhaps the perplexing anomaly is why more ordinary Bombayites sitting on the vast wealth of their real estate do not simply sell up and enjoy the good life in a less polluted, less frenetic city.

One real estate agent cites the case of a schoolteacher who was earning a mere £200 a month and whose family had for the past 50 years owned a two-bedroom flat in Neapean Sea Road, which has become one of the fashionable areas of Bombay.

> Why more property owners do not follow suit remains a mystery

The schoolteacher sold the flat for $2m, moved to the greener and more laid-back Pune, in the south of Maharashtra, and bought a substantial bungalow.

He still had enough money to set himself up as principal of a school and thus live in wealth for the rest of his life.

Why more property owners do not follow suit is a mystery.

When I first stayed in Bombay, it was with a retired senior police officer who had a three-bedroom flat in the south of city. By western standards, the flat was modest. However, it was conservatively valued at $1m.

Asked why he did not sell up and enjoy his retirement elsewhere, the officer replied: "You get used to the lifestyle here. It would be hard to live anywhere else."

A good office is so hard to find

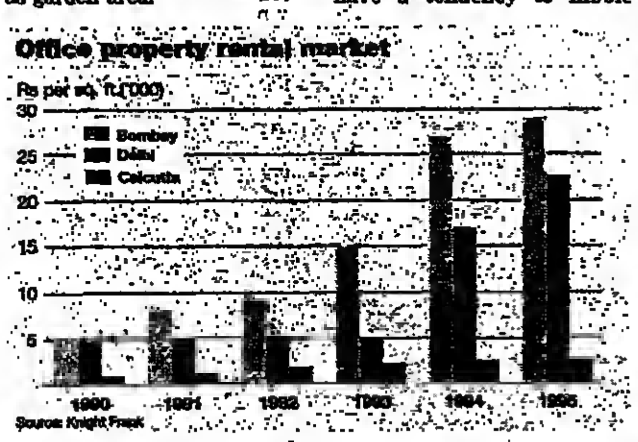
Continued from Page IV

However, the suburbs can be impracticable because of traffic congestion. At peak times, it can take more than an hour to reach Nariman Point even from the nearest suburbs. Initially, Nariman Point was ruled out because of budget reasons. Although its 15-year buildings still fall well short of international standards, for prestige in India there is no location to beat it.

With office space costing at least Rs200 a sq ft, the 500 sq ft office we needed would cost about Rs100,000 a month. In addition, there would an upfront payment of at least one year's rent, a deposit of equivalent to six months' and two months' rent as commission for the real estate agents.

So the search went on through secondary locations around the city. Over four months, we must have seen 30 offices. Some of them almost defied belief. They included a windowless basement, a 5½-ft high coffin shaped room, somebody's cluttered front bedroom and one office that was fine except thet it reeked of urine from the toilet next door. All these "offices" were priced at between £1,000 and £1,200 a month.

Other offices were rejected as too small. Although most offices we looked at were notionally 500 sq ft, in reality they varied remarkably. This is because of a flexible definition of rentable space in Bombay. In most buildings under 15 years, tenants pay for the carpet area – the actual floor space – plus a percentage of communal areas such as lifts, halls and walkways. This percentage can vary widely. The total "built up" area is usually about 20 per cent more than the carpet area but in new buildings it can be up to 50 per cent more, with landlords taking into account such factors as garden area.



This makes it difficult to assess relative value of different offices – a process already complicated by e plethora of variables. These include the amount of deposit and upfront rent, the extent of furnishings, the scope to install technology such as satellites and computers, the length of the lease, the requirement or not for a bank guarantee for the lease terms and whether the tenant pays such outgoings as electricity and rates.

Even the number of telephone lines can be significant and all these factors can push the real occupation cost far beyond the quoted rent. The loss of interest and foreign exchange risk on deposit money alone can make a big difference to occupation costs.

Almost invariably, the negotiations over such factors are protracted. One local real estate agent says landlords have a tendency to nibble away at the terms of the deal – adding such things as rates and electricity to the basic rent. "If they make enough of these nibbles, the whole terms of the deal can be totally changed," he says.

Time and tima again, we came close to closing a deal only for it to fall through at the last minute over negotiations on the extras. Many landlords would agree to a deal and then suddenly make an unrealistic demand such as for a deposit equivalent to three years' rent. Other landlords agreed to a deal but refused 24-hour access, while one insisted on exorbitant rates for providing basic services such as telephone lines. Rental negotiations are not helped either by a wariness of landlords to rent out property.

Even so, many landlords prefer to lock up office space rather than take the risk of renting it out. Often landlords will require detailed financial information abont a tenant and/or bank guarantees that they will leave a property at the end of the lease.

Eventually, after scouring secondary locations for four months, we turned back to Nariman Point.

We chose an 500 sq ft office in Nariman Point with a carpet area of about 450 sq ft. The average rent on the two-year lease works ont to Rs80,000 (£1,600) a month. We also paid six months' rent as deposit, 12 months' rent in advance and two months' rent as commission to the real estate agents.

However, even then the saga did not end. During the lengthy refurbishment of the office after the rental agreement had been signed, the landlord partitioned off a huge swathe of the office and claimed it.

Part of this had been agreed, bnt the landlord went far beyond the original agreement. It took much negotiation to reclaim the space. And even then, the landlord ended up better off.

Nevertheless, I am told we got a reasonable deal on the office. Nothing seems clear-cut in Bombay property deals.

■ **Pepsico:** by Naazneen Karmali

A refreshing experience

The investment was made after the rules were relaxed in the liberalisation measures of 1991

Foreign companies that are skittish about Maharashtra can take heart from Pepsico's refreshing experience. Donning a blue-and-white Pepsi cap, Mr Manohar Joshi, the state's chief minister, recently inaugurated the soft drink giant's new canning and bottling lines at Roha, an industrial district located 100 miles from Bombay. Deliberately projecting a new, welcoming image and looking enthused as he took a sip from a chilled can, Mr Joshi promised all help to Pepsi.

Mr Joshi has good reason to be pleased. In the last five years, Pepsico India Holdings, the Indian subsidiary, has invested Rs2bn in two company-owned factories in Maharashtra which provide employment to 4,000 people.

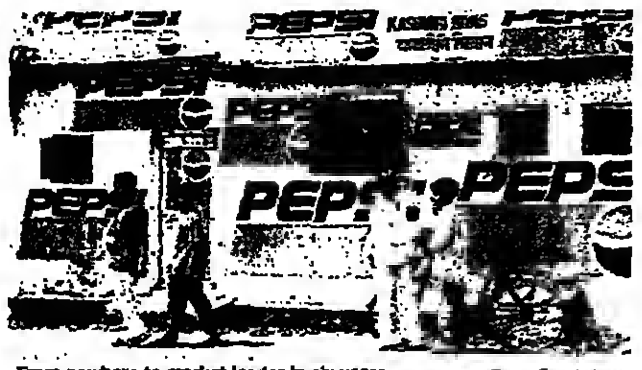
This investment, the largest in any single state by Pepsi, represents one-fifth of the company's total investments of Rs10bn in the country. In addition to its own bottling facilities, it also has a franchise arrangement with a small, local bottler. Mr P.M. Sinha, Pepsico India's chairman says that both the state government and the bureaucracy have been strongly supportive. "This is a place where you can hire high quality technical people. The work culture here is very good and we have no problems pushing out our delivery trucks at 6am every day," he says.

The new lines at Roha were set up in a record nine months since work began last September. Furthermore, most of the 475 workers employed by Pepsi at Roha have been recruited locally. The company also derives most of its raw materials and packaging worth Rs350m annually from local suppliers in the state.

By the turn of the century, Pepsi wants to invest an additional Rs3bn in Maharashtra. About half of this will be spent on setting up more bottling capacity to cater to thirsty markets like Bombay where demand for fizzy drinks is *increasing at a pace that Pepsi* cannot keep up with. Mr Sinha says: "Our business has grown faster here than elsewhere and we've had 60 per cent growth year on year. But we continue to chase demand."

Pepsi's second factory is located at Chembur, a north *Bombay suburb, which caters* to the city market. Cans from the Roha factory are distributed in Bombay and Delhi, whereas bottles go to up country markets in the state; if sent to Bombay, they would attract an entry tax that would eat *into margins.*

The company wants to build a third bottling unit for which it is negotiating to buy a 15-acre site also in Chembur. This new huge factory, with a proposed capacity of 3,000 bottles per minute, will double Pepsi's total annual capacity of 22m cases in Maharashtra and, more importantly, enable it to meet Bombay's booming demand.



From nowhere to market leader in six years — Picture: Tony Andrews

Pepsi's investment in Maharashtra is recent and was made after the economic liberalisation of 1991 when the rules for foreign investment were relaxed. When Pepsi entered the country in 1990 under a *stricter regime, it was bogged* down by export commitments and restrictions on ownership.

Pepsi started off in India as a three-way joint venture with Voltas, a Tata company and the Punjab Agro Investment Corporation, a state-owned company. Consequently, Pepsi's initial investments were in the northern state of Punjab where it established three factories – for soft drinks' concentrate, tomato paste and snack foods.

Taking advantage of the new rules, Mr Sinha bought out the joint venture partners, converting the Indian company to a *fully-owned* subsidiary of Pepsico. Reluctant to invest more in the venture, Voltas agreed to sell both its equity stake as well as its bottling operations in Maharashtra and Gujarat for which it had the franchise.

Mr Sinha recalls that when they took over the Roha factory in early 1994 it was operating at *half its capacity*, the trucks were in a rundown state and distribution was poor.

Pepsi's market share at the time was 13 per cent and it was a poor second to Parle, a privately-owned, local soft drinks manufacturer. Failing in his bid to acquire Parle, which sold its brands to Coca-Cola, Mr Sinha bought Dukes, another local manufacturer, thereby acquiring the bottling unit in Chembur.

Pepsi has since invested further in upgrading and modernising its bottling acquisitions. This has paid off, claims Mr Sinha, as Pepsi now has a 56 per cent market share in Bombay and overall market leadership in Maharashtra.

Building additional capacity will enable Pepsi to consolidate further its position as well as launch new products. The new factory will include a juice line with a capacity of 300 bottles per minute. Mr Sinha says that, by next summer, Pepsi will be introducing fruit juices such as mango, grape and strawberry for which it has begun to negotiate with local fruit pulp suppliers.

Position under challenge

Continued from Page I

Equally, there has been a general welcome for the government's stated objectives of opening up virtually all realms of infrastructure to private and foreign investment. Before the end of this year, the government hopes to have won competitive private tenders to build the long-delayed Bombay-Pune expressway, while also putting up for bid the first of seven smaller ports for private development.

There is also some scepticism that these projects will excite the sort of interest the government desires, notably in the roads sector. Basically, however, there is a nagging feeling among contractors, bankers and others in business in the state that the government regards private sector investment in infrastructure as something of a panacea.

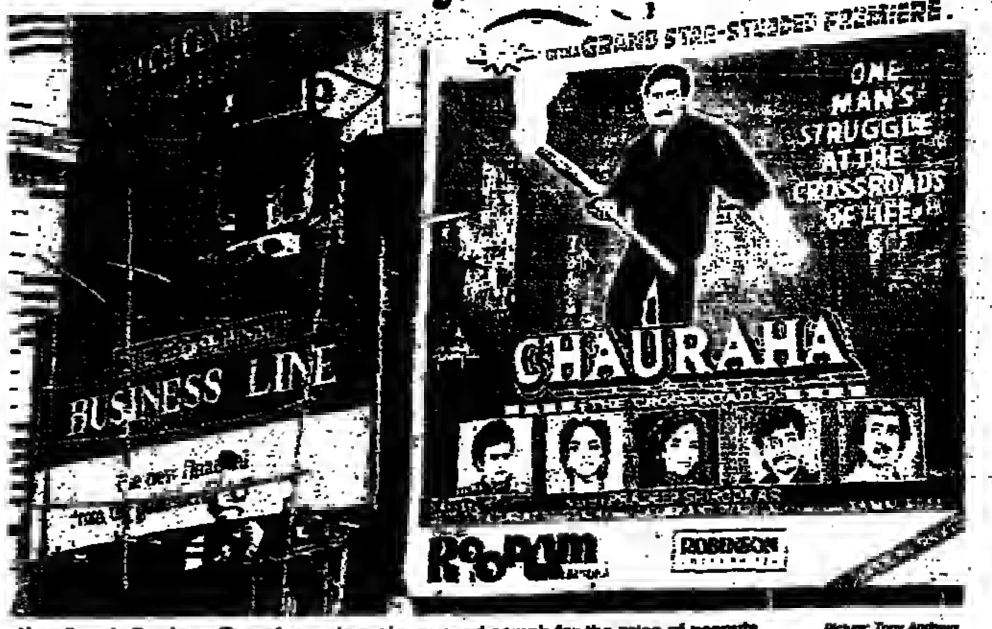
None disputes that the government has identified the correct priority for developing the state. Officials in the Maharashtra government say they increasingly take the view that better infrastructure is the single biggest inducement for investors, and that the state's emphasis should shift in this direction and away from the use of tax and other financial incentives.

The danger, many believe, is that the government might be seduced into believing that the private sector alone can shoulder the burden of infrastructure development. "I think they are running away from their responsibility," says Mr Pradeep Kapoor, managing director of Trafalgar House Construction India. "In semi-ignorance the government has been thinking that from now onwards the infrastructure can be created by the private sector. In my view, the infrastructure we can provide will be minimal – perhaps 5 or 10 per cent of the total investment needed."

■ **Film industry:** by Shiraz Sidhva in Bombay

A target for Hollywood

India has the world's keenest moviegoers, so the Americans want more of the action



Hoardings in Bombay: films of escapism, glamour and oomph for the price of peanuts — Picture: Tony Andrews

Bombay, or Bollywood as it is known, is a regular dream machine, churning out nearly half of the 750 films made in India every year. Films made in Madras and Hyderabad in the southern Indian languages *account for a larger segment of* the industry, but Bombay produces the movies with the big budgets, the big stars, raking in the big bucks.

Bollywood, which employs over 500,000 people full-time, is the home of the formula film. They are made in Hindi, the national language, and are replete with song and dance routines, fist fights and family histrionics, heroes and heroines, vamps and villains. "People's lives are so bleak in our country, that they need a little dose of escapism, and what better than a Rs20 ticket to Nirvana?" says Ms Daksha Shetty, a Bombay University professor who has studied the Hindi film and its impact on society.

There is no doubt that Hindi films deliver large doses of escapism, glamour and oomph for the price of peanuts. Besides boasting the biggest film industry in the world, India also has the largest movie audiences, with about 5bn paying *customers a year*, nearly four times the number of moviegoers in the US.

After a smart recovery from the relatively tardy onslaught of video and satellite television in the country five years ago, the Indian film industry is facing a fresh assault – from Hollywood.

While Hollywood has a steel-like grip on audiences in Europe, Latin America and even the Far East, where few films are produced, Indians have always watched Indian films. There is a small but dedicated audience for western movies, but the numbers account for nothing compared with the millions that flock to Indian language cinemas each week. The market is defined not by language alone, but by strong cultural affiliations.

The sheer numbers were boosted by a large export market that caters to expatriate Indian, Bangladeshi and Pakistani communities (the Hindi cinema transcends political and diplomatic tensions) in the Middle East, Europe, US and the Far East.

In 1994, following the reversal of a 20-year ban on the widespread distribution of foreign films in India, Hollywood hit Hindi-film turf with a dubbed version of *Jurassic Park*. There was no sex, no violence, no action of the kind that distinguishes Hindi cinema (the hero always knocks dead 50 thugs in five minutes to rescue the damsel in distress), and yet, the Spielberg blockbuster was a resounding success.

Last year, muscleman Arnold Schwarzenegger, the gun-toting star of *True Lies* was spouting Hindi like a native. In a desperate attempt to cash in on the world's largest movie market, Hollywood has dubbed films like *Baby's Day Out*, *Schindler's List*, *Speed*, *Aladdin* and *The Mask*, with adequate success to keep the market flooded with dubbed films.

Jurassic Park in Hindi ran for 25 weeks and grossed $6m but Walt Disney's animated yarn *Speed* had to be withdrawn in less than a month. In the big cities, where larger audiences frequent English films, the original versions may have competed with Hindi ones.

Mr Uday Kaushish, north India distributor for Paramount, MGM and Universal Films, says that Hollywood films could carve out 10 per cent of the market in the next five years.

But Mr Kamal Nahta, editor of a Bombay film trade journal disagrees. "We must realise that however good a western film may be, it cannot answer the cultural needs of Indians as easily as our films can. I am convinced that *Jurassic Park* did well only because of its novelty value; because it was the first English film people saw dubbed into Hindi," he says. "I don't see any of these dubbed films grossing the $100m that *Hum Aapke Hain Kaun* (Who am I to you?), the biggest Hindi blockbuster in 20 years, has so far."

Mr Nahta points out that while films made in Bollywood may make foreign audiences shriek with derision, at home they are grossing more than ever before.

"While the cost of production for even the most technically advanced films rarely crosses Rs50m, box office takings for the best films have exceeded Rs1.5bn within a three-year period," he says. "And a good Hindi film never gets dated. Audiences return to see the same films over and over again. Add to that the sheer size of the movie-going public and the numbers are staggering."

The success on a Bombay film rests almost completely on the shoulders of the stars that are signed up. Which is why the top names in the business such as Mr Anil Kapo cannot possibly be matched by Hollywood actors and actresses, however great," claims Mr Nahta. Music is another great draw – song sequences are filmed and released even before the entire film is ready.

Bombay's directors are not afraid of the Hollywood invasion, *saying that Indian audiences* want Indian cinema. Already, US investors have made overtures in India to fund movie theatres and multiplexes. "Bombay has nearly 700 cinema halls but they are no good without the proper projection, without Dolby systems, and the Americans will have to invest in these areas if they want their films to compete with ours," says Mr Nahta.

"I cannot see Hollywood films achieving a real grip on our market, at least for some time," says Mr Shyam Benegal, one of India's best directors of the new cinema. "Americans know little or nothing about our culture, or what appeals to Indians. We have a lot to learn from them, but they have to learn from us too."

KAZAKHSTAN

Glow of prosperity amid the ashes

After the ravages of Soviet rule, the state now has the hope of stability. Anthony Robinson and Sander Thoenes on its past, present and future

The re-election of Mr Boris Yeltsin as president of Russia last week was greeted by a sigh of relief in Kazakhstan and other former colonies of the Soviet empire. The news was seen as further proof of the vitality of the democratic process in Russia. Above all, it signified that Moscow would not try to recreate the old Moscow-centric Union, as threatened by the communists. Instead, the new government, it is hoped, will press ahead with economic reforms that have already laid the basis for a new, mutually profitable relationship with Kazakhstan and other former Soviet states.

During 70 years of Soviet rule Moscow treated Kazakhstan in much the same way as 18th century England treated Australia – as a penal colony, *dumping ground* and quarry. Stalin banished Leon Trotsky to internal exile here in the 1920s. The railways and mines were built mainly by prisoners sent to gulags hastily set up in the treeless steppe and barren deserts of this enormous country half the size of the US.

The pace of industrialisation speeded up when Stalin transferred factories from Nazi-threatened western Russia and Ukraine during the war. At the start of the Cold War he closed off huge areas of eastern Kazakhstan around Semipalatinsk and turned it into a nuclear test centre. It is now a lethal radioactive desert.

Under Nikita Khrushchev, the Soviet Union built its main space centre, the equivalent of America's Cape Canaveral at Baikonur, near the inland Aral Sea. The latter has been turned into a poisonous cesspool by damming up tha rivers that supplied it with fresh water and by pollution from the agro-chemicals used in monoculture cotton farming.

Khrushchav also put tha "virgin lands" of northern Kazakhstan under the plough and used the central part of the country for strategic nuclear tests.

After intensiva diplomatic negotiations with Washington, Mr Nursultan Nazarbayev, the former communist party first secretary who has transformed himself into Kazakhstan's powerful executive president, agreed to dismantle the bases. He has turned Kazakhstan into a non-nuclear state, thereby pleasing both Washington and Moscow.

After all the activity that was dictated by Moscow and submitted to passively for decades by the formerly nomadic, Turkic speaking Kazakhs, ethnic Russians and a rich mix of other nationalities, Kazakhstan emerged from the wreckage of the Soviet Empire as a poor, economically lop-sided and ecologically ravaged country.

On the plus side, however, the new "independent" Kazakhstan began life with a good basic energy and transport infrastructure, a literate, educated population, and a vast storehouse of as yet unexploited natural resources.

Even so the country emerged blinking into the light of an "independence" that remained heavily conditioned by economic reliance on Russia. At the beginning, Moscow did not even want to include Kazakhstan in the Slav-only version of the Commonwealth of Independent States (CIS) created at Minsk, the capital of Belarus, in December 1991. It was only admitted after strong protests from the president, terrified at being denied links with the country that took 90 per cent of Kazakhstan's output and supplied most of its oil and other needs. Broadening Kazakhstan's relationships with other countries has been a top priority since that traumatic moment.

Seen against this background, the very survival of this totally land-locked central Asian country, situated at the heart of the great Eurasian landmass, has to be judged something of a miracle.

But survive it has - although the first five years of an initially unsought and unexpected "independence" brought much suffering. Millions of disorientated people lost their jobs, their income and their security. Their entire way of life as "Soviet man" was changed for ever, without anything recognisable to put in its place.

Potentially, one of the richest countries in the world, endowed by nature with world-class deposits of oil, gas, coal, ferrous and non-ferrous metals and thousands of square miles of fertile grain and pasture land emerged from 70 years of Soviet rule to endure five years of economic meltdown. Its gross domestic product last year had sunk to a mere $16bn-18bn – roughly $1,000 per capita.

But the worst of the bad times is definitely over. A prosperous, secure future beckons.

The turning point, in retrospect, was reached in the second half of 1994 when a new government headed by the prime minister, Mr Akhezhan Kazhegeldin, started to implement an IMF-monitored stabilisation plan that succeeded in killing hyper-inflation.

After a wobble last year, when the government undermined the confidence of foreign investors by interfering with an international tender for the sale of the giant Vasilkovskoye gold mine, the government has gone out of its way to attract and reassure foreign investors.

Bureaucracy, especially at the lower levels, remains a problem. But the government, with international help, has laid the foundations for a modern tax code, revised many laws to bring them into line with the needs of a market economy and encouraged bank reform and privatisation (see stories, page 4).

An independent central bank is pledged to bring inflation down to single digits before the end of the decade and to strengthen the national currency, the tenge.

In foreign policy, President Nazarbayev has played an active and canny role. He is very conscious of the geo-strategic constraints under which Kazakhstan is placed by its size and location.

To survive, Kazakhstan needs good relations with its two most powerful neighbours, Russia and China. They are both large and fast-growing markets in their own right. They also control Kazakhstan's main access routes to the wider world.

To the west, a new 306km rail link between Kazakhstan and Iran has opened up a new, Trans-Asian route between the Chinese port of Lyanyungan on the Yellow Sea and Istanbul on the Bosphorus.

Most important of all, years of often difficult negotiations with Moscow paid off three months ago with an agreement between Russia, Kazakhstan and Oman. This opened the way for a new 750km-long oil-pipeline. By the turn of the century, the new $1.5bn pipeline to be built by the Caspian Pipeline Consortium (CPC), will transport gas condensate from the Karachaganak gas field and oil from the Tengiz oil fields through southern Russia to the port of Novorossiisk.

The first stage will have a capacity of 15m tons a year. But if large quantities of oil are proven underneath the Caspian sea, as expected, the region could be producing up to 80m tons of oil a year by the second decade of the 21st century.

This would require both a higher capacity pipeline through Russia and agreement on a second and possibly third new pipeline through the Caucasus and Turkey to the eastern Mediterranean and through Iran to the Gulf.

Significantly, the price of the CPC agreement, which unlocks the door to Kazakhstan's emergence as a leading energy supplier to western markets, was a deal that leaves the Russian government and two Russian oil companies, Lukoil and Rosneft, with a combined 44 per cent share in a pipeline. Construction, however, will be financed mainly by Chevron, Mobil, Agip and British Gas.

Attention is now focused on hopes of a similar breakthrough in the gas sector following Gazprom's decision to pull out of its partnership with British Gas and Agip in the Karachaganak gas project. Its share may be taken by Lukoil.

Up to now, development of the Soviet-discovered gas field in the far north west of the country has been blocked by Gazprom's refusal to let Kazakh gas through to world markets or to pay world prices for gas which it needs to replace the ageing and depleted Orenburg deposits only 150kms further north.

Big, capital intensive energy projects such as these, along with ambitious gold and other foreign-financed mining investments, promise to transform the economy and boost government revenues. But they will only come on stream in the next century.

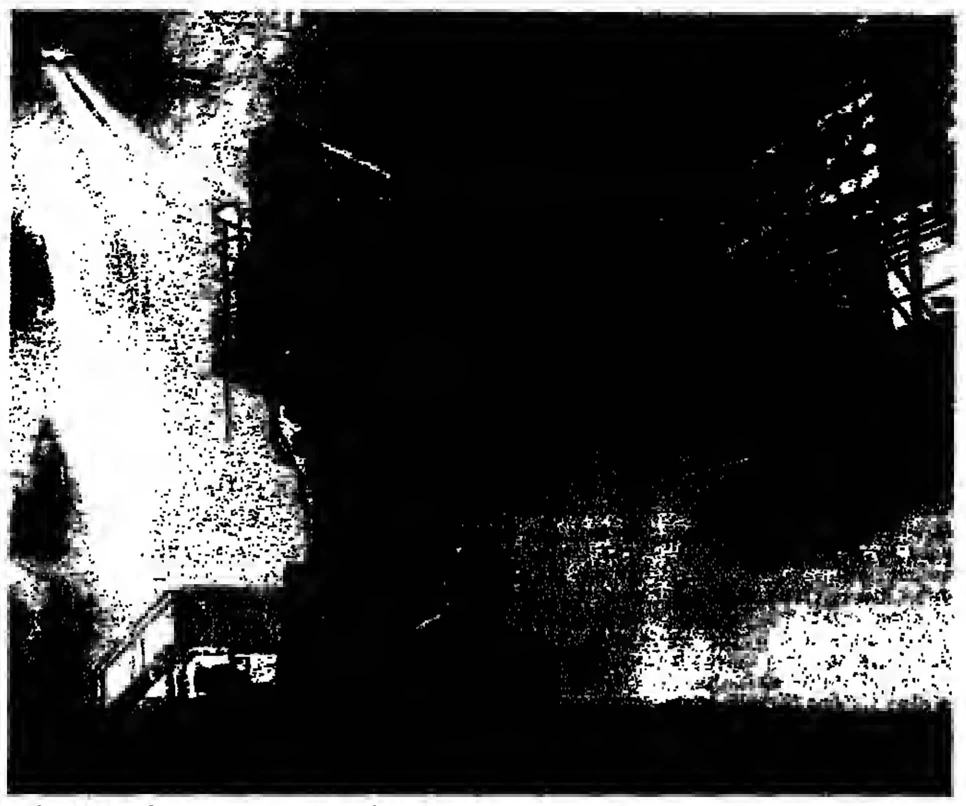
Hopes for shorter term improvements in the economy hinge on the privatisation of the Soviet-era behemoths, the development of private trade and the emergence of small- and medium-sized private manufacturing and service companies both to provide good quality consumer goods and to create jobs.

Investors from Russia, Israel, India and Korea have stepped in to give this process momentum. Industrial output is officially forecast to rise only 2 per cent this year and the economy as a whole is expected to show zero growth after five years of steep decline.

But a 250 per cent increase in monthly production realised by the Indian-owned Ispat-Karmet steel complex near Karaganda only six months after privatisation, and the revitalisation of moribund iron and coal mines and ferro-alloy plants by the Russian/Israeli Trans-World Group, indicates that output and exports could rise much more sharply than forecast.

Agriculture also gives cause for optimism; if weather conditions remain favourable in July, a bumper grain harvest of around 15m tons, with 3.5m available for export, is a strong possibility.

The "feel-good" factor is not yet experienced by millions of ordinary people whose life remains hard. But the economy is definitely on the move, the markets and shops are lively and well stocked, inflation is relatively low and declining – massive foreign investments are starting to get underway. With luck and steady nerves Kazakhstan could be on its way to becoming the El Dorado of 21st century Central Asia.



An iron and steel works in Karaganda: foreign ownership is turning industries round Novosti

KEY FACTS

Area	2,717sq km
Population	1995: 16.7m; 1996F: 16.5m
Head of state	President Nursultan Nazarbayev
Currency	Tenge
Exchange rate	1995 average: $1=61; July 2 1996: $1=67.26

	1994	1995	1996*	1997*
GDP ($bn)	18.7	16.5	16.5	18.0
Real GDP growth (%)	-25.0	-8.9	0.0	1.5
Industrial output (%)	-28.0	-7.9	2.0	4.0
CPI (%)	1,880.0	180.0	50.0	35.0
Unemployment (%)	1.6	2.4	3.0	3.0
Ex. rate to US$ (e.o.p)	30.0	60.0	70.0	80.0
Current account (% GDP)	N/A	-1.3	2.4	2.0
Official reserves (US$bn)	1.0	1.7	2.2	2.7
Fiscal balance (% GDP)	-6.5	-4.0	-4.0	-3.0
Gross external debt (% GDP)	10.5	18.5	18.1	18.5

Main trading partners (% 1995)	Exports	Imports
Russia	42.1	46.2
Netherlands	10.5	6.8
China	6.1	5.0
Germany	3.4	4.4
Uzbekistan	3.2	3.0
Other members of former Soviet Union	8.7	16.4

* Forecast

Sources: EIU, Reuter, CSU, CNB, ABN-AMRO Hoare Govett estimates.

IN THIS SURVEY

■ **Agriculture:** by Anthony Robinson

Down, on the farm?

There are hopes that the dismal Kazakh farming record could be being reversed

Opening up the "Virgin Lands" of northern Kazakhstan for grain cultivation in the early 1960s was the Soviet equivalent of ploughing up the North American prairies.

In America, hardy pioneers built private family farms and cattle ranches on the free or cheap land forcibly expropriated from the Indians.

In Kazakhstan the decision to plough up the virgin steppe-lands was taken by the communist party politburo headed by Nikita Khrushchev and those displaced were nomadic Kazakhs who lived in easily transportable "yurts", or circular tents.

The virgin lands programme was aimed at raising the quantity and the security of the Soviet grain harvest and increasing the supply of meat. However, it was poorly planned and executed with total disregard for the welfare of the people involved. Thousands of "volunteers", many of them young students, were sent by the trainload and dropped off at points in the endless steppeland that was to be the site of vast new collective and state farms.

Frequent droughts, the short, five months maximum, growing season, the unexpectedly rapid decline in natural fertility and the need to apply large quantities of agrochemicals meant that the virgin lands never fulfilled the high expectations of cheap and abundant meat and grain. The Soviet Union was forced to import increasing quantities of grain and meat for hard currency.

But the main difficulty, even when the teething problems were overcome and billions of extra roubles were thrown at the new collective and state farms, was always the huge wastage and poor distribution networks.

Every year, a high proportion of the crop either rotted in the fields, fell off the back of trucks bumping over rutted mud tracks, or was eaten by rats and birds in grain depots open to the elements.

Officially, things have got worse since the Soviet system collapsed. The collective farms no longer receive seed, fertilisers or combine harvesters from the state; collective farmers, who used to be paid a regular salary like industrial workers, have not been paid for four years; the state no longer carts away the grain and meat. The collective farms are wailing.

Yet, strangely, there has never been more food in the exuberant, well-stocked private markets and privatised shops of Almaty and other towns. Food prices are out of the reach of many pensioners and the new poor who used to get cheap basic food – provided they were prepared to queue for hours. Much of the fruit and other food products comes from neighbouring Uzbekistan, brought by private traders who were forbidden to cross state boundaries under the Soviet regime. But the market system is, often chaotically, taking root.

> A bumper grain harvest of about 20m tons is being forecast

Last year a severe drought pushed the grain harvest down to around 9m tons. This year, the snow lingered late and much of the grain-growing area, which extends from around 80kms north of Karaganda into southern Siberia, had good rainfall. Moisture levels are high and the grass, grazed by big herds of sheep and well-fed looking cattle, is lush as far as the eye can see.

The government is officially forecasting a bumper grain harvest of around 20m tons, but it will not be possible to judge the output accurately until late July. A hot, dry July without rain, or an early wet autumn could still dash hopes.

Western grain traders also caution that after five years of little or no pesticide or fertiliser application, the country will be lucky to get 15m tons, even if weather conditions remain favourable.

"At present the agricultural sector produces around $4bn a year, around 25 per cent of GDP. With modern methods and better infrastructure, Kazakhstan could easily produce 20m tons of grain a year," says Mr Ben Benichi, a US grain trader. "At present, yields are around one ton per hectare, compared with the EU average of 3.5 tons. If Kazakhstan got up to half of EU levels, which is quite possible, it could produce 25m tons of wheat alone," he adds.

Mr Benichi runs Cargill-Dan, a joint venture between the US-based commodity trader and a local Kazakh company owned by a previous agriculture minister.

John Deere, New Holland and other agricultural equipment makers are trying to break into the market with modern, efficient agricultural machinery. Thus far they have been frustrated by lack of finance and the cash crisis of most collective farms. But last month the government announced that it was buying 1,000 new combine harvesters from Russia to exchange for future grain deliveries.

The new private banks are trying to find ways of increasing the liquidity of the cash-starved farm system, but at present traders such as Cargill are the main catalysts for change in the sector.

"Our business is buying Kazakh wheat and barley from silos here for export. We are also looking at ways of importing vegetable oil and white sugar, which used to come mainly from Ukraine," Mr Benichi says.

Earlier this year, Cargill also bought a 60,000 capacity grain silo at Surgai from a privatised collective farm. It is offering to provide diesel fuel and other inputs in return for supplies of grain from local farms at pre-agreed terms.

"We're providing a service and introducing the cash economy. But we insist on fulfilment of contract terms. That's a new concept around here," says Mr Benichi.

"We've been very impressed by the 'can-do' attitude of the people at the silo. They've had to make do and improvise for decades. We asked them to come up with cheap, effective ideas to improve the silo's operation and they have. They're great," he adds.

■ **The environment:** by Bayan Orumbayeva and Anthony Robinson

USSR leaves a toxic legacy

Pollution from nuclear testing and cotton farming has created a huge health problem

Road to ruin...cotton pickers en route to work. Agrochemicals used in farming have poisoned water *Novosti*

Contempt for the health of people and the environment from both its Soviet rulers and the Chinese communist regime has left several large areas of the newly independent Kazakh republic with a terrible ecological legacy.

Thousands of hectares around the former nuclear arms testing ground of Semipalatinsk in north-east Kazakhstan will remain dangerously irradiated for centuries. Fall-out from the Chinese nuclear testing site at Lop Nor only 1,200kms from Almaty has often drifted across the Tien Shan mountains and over the Kazakh capital.

The other main ecological disaster is the destruction of the formerly fish-rich Aral Sea, in the centre of this enormous country. The ancient sea has shrunk to half its former size, exposing the thick layers of salt on what used to be part of its bed to erosion and fierce storms.

The root cause is the damming of the Amu Darya and Syr Darya rivers, which once fed the sea with fresh water from the mountains to the south. They were diverted in Soviet times to provide irrigation for monocultural cotton farming, which pollutes the *remaining trickle of water with* agricultural chemicals.

The heavy use of agro-chemicals in Soviet times, now discontinued for lack of funds, has pollnted *many rural* regions. The strong concentration of heavily polluting ferrous and especially non-ferrous mining and smelting in eastern *Kazakhstan has also polluted* water supplies and the air in the republic's extensive industrial and mining areas.

Recent research by Dr Alma Aknoba of the *Geographic* Institute of Kazakhstan revealed high concentrations of lead and cadmium in the vital organs of residents of eastern *Kazakhstan. Dr* Aknoba found that lead levels were between two and 32 times higher than those in a control group in Almaty, while cadmium levels were two to six times higher. The highest concentrations were in fast-growing teenagers. Pollution at these levels has led to a steep rise in cancers, still births and deformities.

The plight of people living in the two main ecological disasters areas is desperate.

In the Aral sea region around Aktyubinsk 90 per cent of children suffer from pollution-related illnesses and two-thirds are victims of three or more pathological *conditions* – principally respiratory, neurological and developmental disorders. Half the children suffer from anaemia while 68 per cent hava excessive salt in their bodies from tha age of three months. People all around the dried-up areas of the sea also suffer from a high level of allergic reactions.

Infant mortality levels continue *to rise, exacerbated not* only by ecological conditions but also by lack of medicina and health care and the collapse of the social organisations that provided cheap milk *and other essential foods. The* state has been unable to shoulder the cost of services theoretically transferred from institutions of the old Soviet regime. Medicines, formerly supplied free or at nominal cost, are now only *available* to those able to pay the high prices for smuggled drugs.

But the worst pathologies are to be found in the *Semipalatinsk region, where for more* than 40 years the Soviet regime carried out atmospheric and underground nuclear tests, deliberately exposing local residents to high levels of nuclear fall-out over long periods.

From *1949* to *1963* some *124* atmospheric explosions were carried out at Semipalatinsk, followed by 343 underground explosions until 1989, some of *which also resulted in accidental* escapes of nuclear fall-out into the atmosphere and the pollution of ground water.

The Soviet president Mr Mikhail Gorbachav stopped all *testing* in 1989. In tha last years of perestroika a widely popular anti-nnclear movement called Nevada-Semipalatinsk emerged. In 1991 the Kazakh president, Mr Nursultan Nazarbayev, who was born in the *region*, issued a decree closing the testing grounds for ever.

But the legacy for the millions of people living in the *test range* area, which includes parts of the relatively heavily populated *Semipalatinsk, Kara*ganda and Pavlodar regions, is much worse even than for the survivors of Hiroshima and Nagasaki.

The victims of the *etom* bomb attacks on the two Japanese cities at the end of the second world war suffered one single dose of gamma radiation. *The victims of decades of* nuclear testing in Kazakhstan suffered both repeated doses of gamma radiation and chronic and continuing *internal* radiation due to the contamination of the food and water they eat and *drink* and the air they breathe.

In the regions surrounding *the test site* every third child is born dead or with serious mental and physical defects. *More* than 80 per cent of children are expected to develop various *pathologies* during their shortened lives. Between 1980 and 1989 the number of cases of severe anaemia also grew over six-fold. More and more *children* are suffering from the malignant tumours that are *killing a rapidly-growing* proportion of adults.

Cancer deaths in Semipalatinsk oblast rose seven-fold between 1975-85, mostly from tumours in tha digestive organs, while 50 per cent of the population suffered from damage to their immune systems and 86 per cent from blood abnormalities.

Coping with a health and environmental *problem of this* scale is way beyond the current resources of a cash-strapped government struggling to maintain macro-economic *stability* and to attract the foreign investment needed to exploit the country'a vast resource base in e profitable and environmentally-sensitive *fashion*.

But, as the nation's wealth increases, tackling the health and experiential traumas of the worst victims of the Soviet years *is* expected to move smartly up the list of government priorities.

The return of the natives

The combination of Stalinist repression, famine and forcibla transfer of populations has dramatically changed the ethnic mix of Kazakhstan.

According to *the Tsarist* census of 1897, some 3.4m Kazakhs then made up 82 per cent of the population. In tha 1930s around 1.5m to 2.5m *Kazakhs died from* bunger, purges and exile to Siberia and elsewhere. By 1937 the number of Kazakhs living in their homeland had fallen to *2.18m, or 43 per cent.*

Hundreds of thousands more were killed serving in the Red Army during the war, while Tartars, Volga Germans, Chechens, Koreans, Poles and other "suspect" peoples were transferred en masse, under the supervision of the secret police, to internal *exile in Kazakhstan.*

Many were drafted in to *rebuild and staff the* hundreds of enterprises that were hastily dismantled and transferred to Kazakhstan and Siberie from the western *parts of the Soviet Union* to prevent them falling into Nazi hands at the start of the second world war.

In the 1950s millions more *Russians* and *Ukrainians* were sent to man the new mines, steel works, refineries and other industrial plants set up after the war and to *plough up the fertile but arid* virgin lands of northern Kazakhstan.

By 1959 Kazakhs made up only 30 per cent of the *population* while *ethnic* Russians constituted 43 per cent and held most of the key party, government, administrative and managerial positions.

From then on, the *balance* began to shift back thanks to *the higher natural birth rate* of the Kazakhs, and the subsequent emigration of thousands of ethnic Germans. *Many Slavs* have meanwhile *quietly returned to Russia*, Ukraine and elsewhere following the disintegration of the Soviet Union.

Today, native Kazakhs *account for over 45 per cent* of the population and may constitute the majority by the turn of the century.

Normal political control moved back *into* Kazakh hands in the early 1960s, with the appointment of Dinmukhamed Kunayev as the republic's communist party *first secretary* by *Nikita* Khrushchev, Stalin's successor. Most key posts remained in Slav hands, however.

Kunayev became one of the *few non-Slav members of the* Moscow-based politburo. When he died in 1986 Mr Mikhail Gorbachev, the new *Soviet leader*, replaced him with Mr Gennady Kolbin, an ethnic Russian. Within days of the terse *announcement* the capital, then called Alma Ata, was convulsed by the first of the ethnic revolts to shake the foundations of the *multi-ethnic Soviet state.*

"I walked to work over blood-stained snow after three days of violent repression by Russian soldiers who were *flown in* from Chelyabinsk, as they did not trust the locally-based troops," says a Kazakh eyewitness to the events of December 1986. "Later, everybody who *did* not turn up for work on those days was questioned by the KGB and Kazakhs were looked on as traitors. In those *three days*, I discovered the real nature of Soviet power."

■ **Economy:** by Anthony Robinson

At last, the hope of a secure future

Macro-economic stability and new foreign investment could end years of privation

The world is full of *potentially* rich countries, and that is the category to which Kazakhstan firmly belonged during 70 years of Moscow-centric, Soviet rule. Now, only five traumatic years since the disintegration of the Soviet empire, the Kazakh economy appears to be on the verge of a prosperity unlike anything else it has experienced.

Under Soviet rule, Kazakhstan was transformed from a country of nomadic farmers on the fringes of Czarist Russia into a land of state and collective farms, mines and metallurgical and defence plants knitted together by 14,000kms of mainline railways.

Decades of geological exploration revealed some of the world's richest deposits of oil and gas, coal, and ferrous as well as non-ferrous metals, including some of the richest gold and uranium fields.

But under the wasteful, centralised and increasingly militarised Soviet system, Kazakhstan remained essentially a gigantic farm, quarry and producer of basic iron and steel products. These were transported to Russia and other more industrialised Soviet republics for downstream processing.

Above all, the Soviet Union's perennial shortage of capital and relatively low technological level (apart from in the military sphere) meant that it was never able to build the oil and gas wells and gold mines needed to exploit the region's resource base fully. The central planners did not create a climate for consumer and other light industries, which were woefully under-developed throughout the Soviet empire.

This lop-sided economic development meant that Kazakhstan initially suffered cruelly from the disintegration of the Soviet Union and the collapse in inter-republican and Comecon trade that followed the abolition of the transferable rouble and central planning.

Longer term, however, the inability of the Soviet system to exploit the resource base fully means that world class gas and oil deposits in the far west of the country around and under the Caspian sea, and the rich gold and other deposits scattered around the country, have attracted the attention of some of the world's biggest multinational energy and mineral companies. These companies are capable of exploiting these resources in efficient, ecologically-sensitive ways that will create a stream of wealth for them – and for the government and people of Kazakhstan.

The details of the biggest resource-based investments are to be found on pages 4 and 5 in this survey. The concern of the government is that the billions of dollars expected to flow into capital-intensive resource projects in remote areas of the country will create relatively few jobs for Kazakhs and will only start generating wealth by the first decade of the next century.

In the meantime, the priority over the past 18 months has been to put in place the legal and institutional framework for a market economy and create macro-economic stability after two years of hyper-inflation and bungling by inexperienced economic policy makers that un-nerved foreign investors in gold and other resource projects.

Tight, IMF-monitored monetary and fiscal policies were introduced half way through 1994. Inflation fell from 1,880 per cent in 1994 to 180 per cent last year, with the prospect of a further decline to between 30-50 per cent this year. External debt at around $3bn is low. The plunge in output that followed the loss of Soviet markets in 1991 has come to an end. Industrial production is expected to show an increase of around 2 per cent this year. From now on, the economy should start to show steady growth.

Official optimism may well understate the speed of the recovery, which is underway in sigificant areas of the economy. For example, several big Soviet-era metallurgical plants that have recently been sold to private investors have registered spectacular increases in output and exports over the last six months. At the same time, mine output has been boosted and the revenue of the cash-strapped railway system increased.

The Karaganda Metallurgical Combinat (Karmet), the country's only integrated steel plant was only producing 100,000 tons a month at the end of last year, and 90 per cent of its output was sold for barter. This left the plant unable to pay either its workers or its suppliers. But, in November, it was sold to the London-based, Indian-owned Ispat steel group. By May the new owners had boosted output to 250,000 tons a month, all of which was sold for cash, and over 90 per cent, worth around $55m, was exported.

Kick-starting the existing economic structure back into life on a more rational, cash not barter basis, appears to have created the start of a virtuous cycle of growth. It has also established a new basis for a resumption of trade with Russia and the rest of the world.

By trading on a barter basis, Soviet-era companies were able to keep their plants ticking over. But barter starved enterprises of cash and working capital. They were unable to pay suppliers or workers and totally incapable of new investment or anything but the most minimal care and maintenance.

But with new foreign owners such as London-based Ispat, the Russian/Israeli financed Trans-World and Eurasiabank, and other companies, such as Samsung of Korea, now in charge, the mines and metallurgical plants are paying cash for goods and services and exporting a high proportion of output.

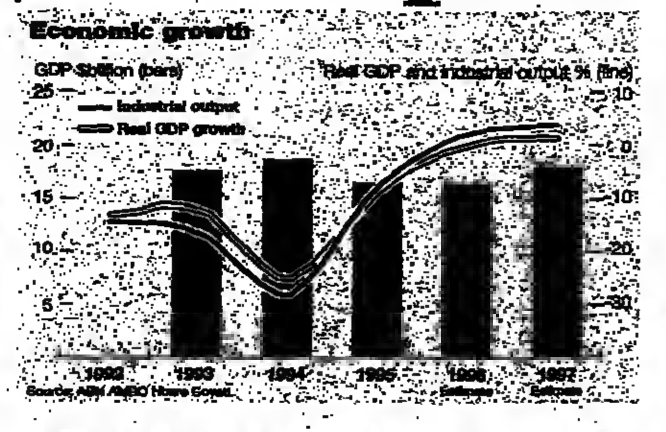
In this way, they are ensuring the rapid development of a "normal" economy with a built-in multiplier effect as workers spend their back-pay and suppliers of goods and services, including the cash-strapped railways, start repaying their debts and making modest investments.

Reducing the estimated $10bn overhang of inter-enterprise debt is one of the priorities of the central bank. Its other main objective is to ensure that the billions of dollars now starting to flow in for the big new resource development projects do not lead to an inflationary surge in money supply again.

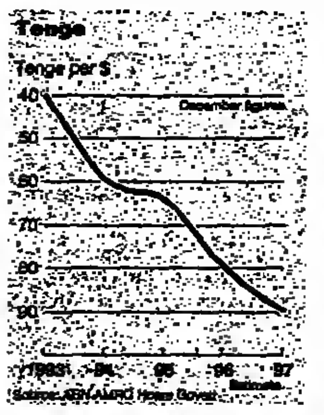
"We are prepared to sterilise excess money if necessary and we are also in favour of keeping a flexible exchange rate regime," says Mr Uraz Dzhandosov, president of the National Bank of Kazakhstan.

But international bankers still worry that a surge of foreign capital into government coffers could well reduce the pressure to complete the tax and other reforms needed to reverse a decline in state revenues and put state finances on an even keel.

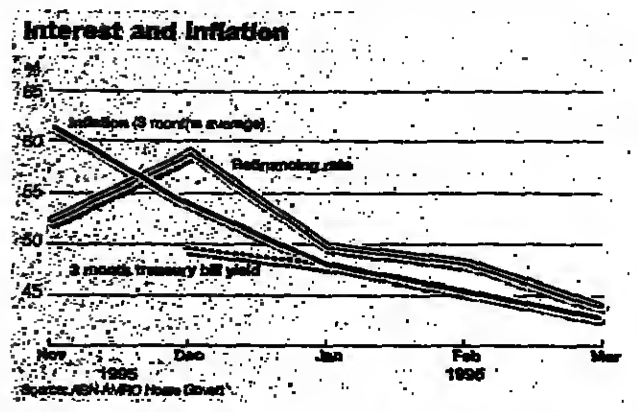
But tehnical worries like these are a far cry from the dilemmas faced by economic policy makers over the last five years. The economy is on the move. The only real question now is how far and how fast it will go.



Source: ABN-AMRO Hoare Govett



Source: ABN-AMRO Hoare Govett



Source: ABN-AMRO Hoare Govett

External trade (US$m)

	1995	Q1 95	Q2 95	Q3 95	Q4 95
Current account	-218	-248	0	73	-46
Trade balance	-28	-214	75	112	-1
Exports, FOB	5,198	835	1,306	1,683	1,375
Imports, FOB	-5,228	-1,049	-1,230	-1,571	-1,376
Service balance	-99	-22	-37	-33	-8
Interest income	-151	-25	-50	-27	-49
Current transfers	59	15	12	20	12
Capital account	-379	-7	-35	-133	-205
Capital transfers	-652	-183	-182	-173	-115
Direct investments	660	135	153	158	214
Other investments	528	165	95	168	100
Other capital	-914	-123	-101	-286	-404
Errors and omissions	212	211	-153	-80	234
Change in reserves	385	42	187	140	17

Source: National Bank of Kazakhstan/ABN-AMRO Hoare Govett

External debt ($m)

	1992A	1993A	1994A	1995A	1996F	1997F
Foreign debt	35	1,200	1,970	3,060	3,000	3,300
Debt service	0	125	205	300	303	363
GDP	N/A	17.7	18.7	16.5	18.1	18.0
Ratios						
Debt-to-GDP (%)	N/A	6.8	10.5	18.5	18.1	18.4
Debt-service-to-GDP (%)	N/A	0.7	1.1	1.8	1.8	2.0

Sources: National Bank of Kazakhstan, IMF, ABN-AMRO Hoare Govett estimates. A = estimate; F = forecast

INTERVIEW The president

Trust of people key to reform

It is a few days before his 56th birthday, on July 6, and Mr Nursultan Nazarbayev, Kazakhstan's first president, is looking back on a good year. In the previous three months alone his government has signed nearly a dozen contracts worth between $200m and $1.5bn each.

"Why have so many come now and not earlier?" he asks himself, sitting on the tip of a chair in his mahogany office as if in a hurry to go back to work. "Little time has passed since Kazakhstan became an independent state and many foreign companies used to take a wait-and-see attitude, watching how others were doing. The main thing is that big companies came to Kazakhstan and have started to work successfully. That attracts others.

"Last year, we adopted 130 market-oriented laws. Foreign investors especially responded well to the foreign investment law, the law on mineral resources, the law on oil, the law on mortgages, and the tax code that was adopted by Kazakhstan. It has no equal in the CIS and gives clear guarantees to foreign investments on repatriation of the profits," he continues, but then adds quickly: "That's not enough. The Supreme Economic Council of the president works on preparing documents that should improve the tax climate, with tax holidays and exemptions."

Turning to the state of the domestic economy, the president says: "Kazakhstan, like other post-Soviet states, has only just reached macro-economic stabilisation. In 1994 we had 1260 per cent inflation, last year it was 60 per cent, this year we plan for 30 per cent. Next year, we hope for 9 to 12 per cent, and in 1998 we need have 2 or 3 per cent inflation to function like any normal capitalist state.

"These are hard targets to reach. In such conditions, the government carries a heavy burden. Last year I approved a three-year mid-term economic programme. It calls for raising people's average income by two and a half times, higher pensions, a 2 or 3 per cent rise in annual output starting 1997, a stable national currency, an increase in the gold reserves, a rise in Gross National Product each year. We have to give the cabinet the chance to fulfil that programme."

Nazarbayev: has a target of 2 or 3 per cent inflation by 1998

Asked what worries him before he goes to bed at night, Mr Nazarbayev pauses for only a second. "We need to improve the lives of the people of Kazakhstan faster. If we don't do that quickly the population may get fed up. Those investments that came to Kazakhstan – $2.5bn in the past two years, $5bn in the past five years – they went to capital-intensive projects which will only bear fruit in three to four years. The Caspian Pipeline Consortium contract greatly enhances the potential of Kazakhstan. Last year for the first time, exports exceeded imports. All that enables me to make an optimistic prediction that we are close to really improving the lives of my people. The faster we improve the lives of the people, the more they trust in our reforms. And that will provide strength to our state."

Sander Thoenes

■ **Politics and foreign policy:** by Sander Thoenes

Tough at home, tactful away

The president has strengthened his own role without alienating his neighbours

In June, the Kazakh parliament tried to wield the only power it had left – the power to vote down laws. The Mazhilis, the lower house of a parliament that was elected last year, rejected a draft law that would have raised the retirement age by three years. But the government of the prime minister, Mr Akezhan Kazhegeldin, re-submitted the bill and put it to a vote of confidence. A rejection would have forced the president, Mr Nursultan Nazarbayev, to dismiss the cabinet or dissolve parliament.

Mr Nazarbayev has twice faced an unfriendly parliament, and has twice managed to get it replaced, each time with fewer powers and a greater number of presidential loyalists. This time, he backed his prime minister. Parliament voted 76 to 29 to approve the bill. "They didn't vote for Kazhegeldin. They voted to keep their job," one Western diplomat says. "It was a game. The parliamentarians just wanted to show they existed."

The vote illustrates the formidable power Mr Nazarbayev has amassed in recent years, mainly at parliament's expense. Even the Communist Party, Kazakhstan's largest movement, with a claimed membership of 48,000, poses little of a threat to his rule. When the government objected to the party's statutes, which still called for a dictatorship of the proletariat, the Communists quietly obliged by deleting the controversial phrases.

His tough stance with the opposition has brought Mr Nazarbayev criticism from Western politicians but praise from Western business executives in Almaty. Investors point to the political stability in Kazakhstan, and at the more than 100 laws, many designed to attract foreign investment, that Mr Nazarbayev pushed through while there was no parliament last year. (The previous parliament, by contrast, adopted only seven laws in one year.)

Mr Nazarbayev says his people simply lack the tradition of organised opposition that, in neighbouring Russia, gave rise to a powerful Communist Party. "Freedom of speech is fully provided in Kazakhstan. There are over 40 parties and movements here," he says. "But Russia is Europe and we are the East. Our people see what problems there are in the countries surrounding us. We have convinced people that for economic reforms to succeed, so that people will live better, we need peace and quiet, political stability and inter-ethnic accord. In the beginning, I had to create all the parties by myself. I set up the Socialist Party, I set up the People's Congress, I created the Union of National Unity," he says, allowing himself to chuckle like a schoolboy who has managed to get away with cribbing. "There was no practice, no tradition. For hundreds of years we lived in totalitarian conditions, and in three, four, five years to become the same as everywhere else is impossible."

In preventing unrest among the Russian minority who dominate the provinces bordering Russia, Mr Nazarbayev has been amenable to compromise. Kazakhstan's Russian community is large, estimated at 34 per cent of the population, and many people work in the outdated factories that are among the hardest hit by reforms.

> 'For hundreds of years, we lived under totalitarianism, to change in five is hard'

Power has shifted into ethnic Kazakh hands since the dissolution of the Soviet Union. But Kazakhstan has been careful to avoid overt discrimination against the Russian minority. Russian and German schools are officially encouraged to stay open, though they now have to teach Kazakh as a second language. Mr Nazarbayev tends to address his people more often in Russian than in Kazakh.

According to official statistics, only 25,000 people emigrated from Kazakhstan in the first quarter of this year, compared with half a million in 1994. "The problem was serious two years ago, but it's not so tense now," one diplomat says. "Maybe the Russians realised the situation was not much better in Russia and that in the future it will be possible to make good money in Kazakhstan."

A similar willingness to compromise has enabled Mr Nazarbayev to avoid a conflict with the two superpowers that surround him, Russia and China. Russia still controls access to export routes for oil and gas; it is the leading trade partner and the dominant military force in the region. Unlike the Baltics or neighbouring Uzbekistan, Kazakhstan has no choice but to live with Russia.

Last year, Kazakhstan joined a customs union with Russia that now includes Belarus and Kyrgyzstan. Critics say the union benefits Russia and was designed to boost the ratings of Russia's president, Mr Boris Yeltsin, in presidential elections last week.

Mr Nazarbayev demurs. "The bottom line is – whatever is advantageous to Kazakhstan," he says. "We initiated the customs union with Russia. I don't see any politics here. I see pure economics." Citing a sharp rise in trade with Russia in the past half year, he adds: "Why should we let the Russian market pass us by? It's profitable for us to send our goods there.

"When we signed the quadrilateral agreement," he adds, "we made sure that this agreement would not clip our wings and that it would leave no room for imperial ambitions."

In return for his support, as well as a large Russian stake, Mr Yeltsin in April signed an agreement with Mr Nazarbayev on the construction of a vital pipeline that will enable Kazakhstan to export its oil. Russia has also muted its objections to Kazakh exploration of its part of the Caspian Sea Shelf, though its diplomats still insist the Caspian's resources should be jointly owned and exploited.

Similarly, Mr Nazarbayev has kept quiet about Chinese nuclear tests, just across the border, and has cracked down on the Uigur minority that supports an Uigur independence movement in northern China. "They want no problems in the East and they are willing to make any concession," one diplomat says. "It's simply too dangerous for them not to."

The danger is not imminent, but hard to ignore. An overcrowded China is only 300km from the capital and could one day revive old claims on Kazakhstan's south-east. Thousands of Chinese have quietly emigrated to eastern Kazakhstan, trading and running small businesses. One presidential aide says that fear of China is one reason why Mr Nazarbayev has decided to relocate the capital to Akmola, in the north.

"It's not so much that we want to be close to Russia," he says. "We just don't want to be close to China." Kazakhstan's soft stance has also brought an early pay-off. Mr Nazarbayev won access to Chinese railways and the port of Lyanyungan, opening up the South-East Asian markets to Kazakh metals and other products.

A less obvious threat to Mr Nazarbayev's authority has been a power struggle, well hidden behind the walls of his palace, with his prime minister, Mr Kazhegeldin. "Nazarbayev realised that Kazhegeldin was becoming too powerful and was crossing into his turf,"

> 'They want no problems in the east and they are willing to make any concession'

one diplomat says.

Diplomats and Kazakh observers say that Mr Kazhegeldin boosted his powers not just by turning the economy around but also by pushing the president's allies out of the cabinet and building a power base among the country's emerging business élite.

They had expected the president to sack Mr Kazhegeldin early this spring, but at the last minute Mr Nazarbayev kept Mr Kazhegeldin in place. Mr Vitaly Mette, a deputy prime minister and ally of the president, was sacked instead. The president has in recent months focused on foreign relations and domestic politics, leaving the economy largely to his prime minister. Mr Nazarbayev admits he has backed out of the daily economic decision making but denies there has been any conflicts with his prime minister. "The relations between the president and Mr Kazhegeldin have changed since February," the diplomat says. "They made a deal. Kazhegeldin was becoming too powerful, but maybe there was no alternative."

■ **Banking:** by Anthony Robinson

Two tiers take shape

Assistance from the World Bank and the EBRD has helped quicken the pace of reform

The spade work to build a solid basis for the Kazakh banking system took place in the second half of 1994 when the government and central bank put in place an IMF-supervised stabilisation programme. This sought to repair the damage created by a bungled bail-out of loss-making enterprises that caused a hyper-inflationary surge in money supply over the first half of that year.

The re-establishment of macro-economic stability since 1995 has underpinned the tenge, the national currency introduced in December 1993, and permitted the core group of young central bank managers, led by Mr Uraz Dzhandosov, the president of the National Bank of Kazakhstan (NBK) and Mr Grigory Marchenko, the head of banking supervision, to move forward with policies designed to consolidate the banking system and toughen supervision.

Banking sector reform is being helped by the World Bank, the European Bank for Reconstruction and Development and others. The EBRD is taking equity stakes in some of the fledgling private banks and provides medium-term finance for on-lending to small- and medium-sized enterprises. Last month, the World Bank approved a $180m, two-year financial sector adjustment loan to help improve the banking environment and tackle the extensive inter-enterprise debt and bad loan problem.

Mr Dzhandosov, president of the NBK, estimates that the volume of inter-enterprise debt is around 700bn tenge, just under $10bn. This is equivalent to around 70 per cent of an estimated gross domestic product of between $16bn-18bn. "The problem is bad, and the volume of inter-enterprise debt is still growing," he adds.

The World Bank loan will help finance the transfer of non-performing loans, taken on by the state-owned banks at the government's request in the early transition years, to special state work-out entities, such as the Rehabilitation Bank, the Agricultural Support Fund and the Ministry of Finance. In many cases, transfer to these bodies will be the ante-chamber to bankruptcy for the debtor.

Mr Dzhandosov says that unrealistic state budgeting is one of the main reasons for the continuing rise in inter-enterprise debt. "Tax inflows are insufficient and the government essentially takes goods and services without paying for them. The main areas of non-payment are the agricultural sector and transport and utilities such as heating and electricity," he adds.

Another root cause of the inter-enterprise debt problem is the culture of non-payment. This is inherited from the Soviet regime when inputs and distribution were all in the hands of central planners and the exchange of goods was largely cashless.

Under these conditions, the development of a modern, two-tier banking system is a prerequisite for the transition to a monetised, market economy. Substantial progress has been made towards this goal over the past 18 months and even bigger changes are expected over the next two years.

The independent central bank is at the heart of a banking reform that has already cut down the number of private banks from more than 200 to just over 100 and seeks to re-vitalise the four big state-owned former specialised banks that form the core of the system.

In some ways, the most important of the four state-owned banks is the Narodni bank, the ubiquitous state savings bank. Also known by its Kazakh name of Halyk Bank, it boasts more than 10m savings accounts and an unrivalled branch network through which it collects the bulk of Kazakh savings. Access to the nation's savings means that Narodni/Halyk bank dominates the interbank money market. It is both the main credit wholesaler and the effective lender of last resort to the Kazakh banking system.

"The savings bank has kept the system together as the central bank has withdrawn from active participation in the money market. But it is now moving away from its original specialised role. It is spreading its wings by moving into trade finance and other banking operations," notes Mr Paul Maxwell, managing director of ABN Amro in Almaty.

Alem bank, the former foreign trade bank, got its fingers badly burned last year when a series of Turkish Ex-Im bank-backed deals went wrong, leaving the capital dotted with unfinished Turkish-built hotels and office blocks. Two Turkish banks, Ziraat bank and Emlak bank, have joint ventures with Kazakh banks. Financing packages to complete the 80 per cent finished Ankara Hotel and Alem banking centre should be finalised shortly.

In the meantime, Alem bank, which is also saddled with bad debts, faces an uncertain future and is presently under special supervision.

"The problem with the state-owned banks is that they are all saddled with big bad-loan portfolios and staffed mainly with people used to operating under the old regime where concepts like risk assessment, credit-worthiness and rate of return were unknown. They face growing competition from some of the more aggressive new private banks such as Kazkomertsbank (KKB) which have young, fast-learning staff attuned to modern banking practice and unburdened by inherited bad debt," Mr Maxwell of ABN says.

Foreign banks force change

Giving overseas rivals access to the market is seen as critical to banking modernisation

"One of the main aims of our banking policy is to encourage the emergence of a small core of Kazakh banks, capitalised to the standards set by the Bank for International Settlements and able to compete with foreign banks," says Mr Uraz Dzhandosov, the president of the National Bank of Kazakhstan (NBK).

The decision to pursue a liberal policy towards the entry of foreign banks is seen as crucial to the move to a competitive banking system.

"Legally, we still have a ceiling that restricts foreign banks to under 25 per cent of the overall capital of the banking system. But since January we have had the authority to go above that on a case-by-case basis. We want to end all restrictions on the entry of foreign banks by the end of 1998. By then we hope to have a relatively small core of five or six Kazakh banks – maybe even fewer – which are able to compete with foreign banks," the NBK president adds.

The rise of the foreign banks should run in parallel with the growth of foreign investment. The flow of billions of dollars from multinational oil, gas and mineral companies into the country should encourage other overseas investors in the next few years and create more banking opportunities. The NBK believes that the foreign banks will, initially, at least, concentrate on servicing foreign companies and on foreign exchange and investment banking operations.

This will still leave space for local banks to cultivate their own links with foreign companies and build up their business with the fast-growing local private companies.

Mashkevich: his bank, Eurasia, is giving reorganisation added momentum

At present ABN-AMRO, the Netherlands-based international bank, is the only foreign bank with a full banking licence operating in the country. Apart from handling the usual commercial banking business, ABN is also a primary dealer in government securities. Together with its London based investment banking arm, Hoare Govett, it recently won the 17-bank international tender competition to prepare Kazakhstan's first eurobond issue.

"Initially, we are advising the NBK on a credit rating, which we expect to achieve by September. We then hope to launch what is expected to be an initial $100m Eurobond issue by the end of November," says Mr Paul Maxwell, who manages ABN's operation in Almaty. Kazkomertsbank, one of the most aggressive and innovative of the new private Kazakh banks has a 29 per cent stake in ABN's Kazakh operation and receives technical and other assistance from its Dutch partner.

Almaty is also the headquarters of Eurasiabank, a very different kind of foreign bank. Mr Alexander Mashkevich, a former psychology professor from Bishkek, the capital of neighbouring Kyrgyzstan, sits in a large room that has a white carpet and elegant walnut furniture. He is guarded by armed young men with pistols in shoulder holsters who prowl the antechamber to his office.

Financial backing for the bank, which has the London-based Trans-World Group as a leading shareholder, comes from Russia and Israel. Mr Mashkevich describes Eurasiabank as an investment bank. Over the last two years it has become the owner of a string of large aluminium, ferrous alloy and steel plants together with iron ore mines and power stations in both Kazakhstan and Russia.

Eurasiabank is one of the main forces for the re-organisation and modernisation of the former Soviet-style economy. Mr Mashkevich says the bank creates wealth by providing working capital and inputs to re-start moribund, capital-starved Soviet era plants and by cutting costs and selling the finished product for cash.

Meanwhile, a raft of other foreign banks, including Citibank, Deutsche Bank, Dresdner Bank, Commerzbank, Union Bank of Switzerland and Société Générale of France, have offices in the Kazakh capital and several are expected to set up full banking operations shortly.

Anthony Robinson

■ **New legislation:** by Sander Thoenes

Certain taxes, fewer duties

The president's investment laws need refining but lay the basis for a modern tax system

When the president, Mr Nursultan Nazarbayev, dissolved parliament in early 1995, it had taken more than a year to adopt seven laws. By the time Mr Nazarbayev allowed new elections in December he had passed more than 100 decrees and produced a constitution that was approved by a referendum.

This barrage of legislation, including a new tax code, puts Kazakhstan far ahead of its neighbours in creating a legal basis for investors. "The foundation has clearly been laid," says Mr Fred Tresca, consultant to the government for Price Waterhouse. "But there is still much work to be done in implementing and refining these laws."

In the rush to legislate, some laws were not properly considered and others have been badly publicised. If local officials are not aware of their existence, they can hardly be expected to implement them.

"We have the right words on paper," says Mr Daniel Witt, president of the International Tax and Investment Centre, "but it's a whole different world out there in the oblasts [regional authorities]."

The tax code cuts the number of taxes from 45 to 11, putting an end to many overlapping duties. "It's the best tax code in the former Soviet Union," says Mr Witt, who helped to write it. "It's broad-based, low rate."

Mr Mike Whitear, a tax consultant to the government, is more cautious. "It's a pretty good, modern tax code, but it's also rather vague," he says. "The Kazakhs have been rather strict in their interpretation."

According to Mr Whitear, the code has none of the turnover taxes that put off investors in other former Soviet republics, but it leaves little room for deductibles, pushing up operating expenses.

One simple move that pleased many investors was the abolition on July 1 of all export tariffs, introduced a few years ago to halt a rapid outflow of subsidised Soviet commodities. Export tariffs never did much to stem that flow, however, and now that prices have risen close to world levels, they have turned into unnecessary barriers to trade. Mr Trek Begakhmetov, deputy economics minister, says that his government is still considering alternative ways to prevent the dumping of Kazakh natural resources on the world market. Licences are one option but western economists caution that they would do more harm than good.

Oil, gas and gold producers are less worried about a draft law on taxation of natural resources, which would introduce royalties, excess profit taxes and three bonuses. The government has burried along with this draft and may submit it to parliament this summer.

"On the face of it, the tax terms are not very attractive," Mr Whitear says. "It looks as though it's going to be pretty tough.

"It seems that absolutely everything is going to be negotiable," he adds. "I think that's bad. A company will have to negotiate before it has put the economics of the project on paper."

The draft tax law would be slightly tougher on investors than its Australian counterpart, Mr Whitear says, but adds: "companies investing in Kazakhstan would look for a higher rate of return because of the political risk".

According to Mr Russell Lambert, tax consultant for Price Waterhouse, "Kazakhstan is trying to entice investment, and its main resources are oil and gas. It's hard to entice investment if you have a hard-structured tax code that you're not able to negotiate on. Most oil companies already have their major deals done or in progress, so they feel pretty comfortable that this tax code won't apply to them. But all your existing memo deals that aren't done yet will have to come under this code and that's where you'll have major problems."

Most tax experts agree, however, that even bad tax laws are better than the chaos that preceded them. "I think everyone would rather pay a little higher rate with certainty than a low rate with uncertainty," says Mr Charles McClure, economic adviser at the Hoover Institute in California. "The certainty is a lot greater now."

The 1996 diary of deals

The lobby of the Marco Polo Rakhat Palace, Almaty's most luxurious hotel, has been bustling with Western executives, top officials, lawyers and consultants in the past three months. The result has been a wave of investment that promises to make last year's $1bn inflow look like a trickle. Below is a snapshot of this year's deals:

● April 27 Russian president, Mr Boris Yeltsin and Mr Nursultan Nazarbayev, his Kazakh counterpart, sign an agreement on the Caspian Pipeline Consortium, which should unlock the wealth of Tengiz and other oil fields in western Kazakhstan by linking them to Novorossiisk, the Russian oil export harbour on the Black Sea. Chevron, Mobil, British Gas, Agip, Oryx and later Shell, together with the Russian oil companies Lukoil and Rosneft, agree to finance construction of the pipeline in exchange for guaranteed access. A contract should be finalised later this year. Value: $1.5bn; unlocks $30bn in investments.

● May 3 Mobil Oil agrees to buy a 25 per cent stake in Tengizchevroil, Chevron's production venture at the Tengiz field. Chevron keeps 50 per cent, as before; the government of Kazakhstan sells half of its stake to Mobil for $1.1bn.

● May 25 Deutsche Telekom agrees in principle to upgrade Kazakhtelecom, the country's telephone network, and pay off the monopoly's debts, including those to its workers. In return, the company will obtain 49 per cent of voting shares, plus management control for up to 15 years. Value: $536m in investments and debt payments.

● May 30 Vitol, the Dutch oil trader, wins a privatisation tender for 90 per cent of the Chimkent Refinery, Kazakhstan's largest. Value: $230m in cash and investment pledges.

● June 1 Samson, the US oil producer, wins exclusive rights to negotiate for 90 per cent of the Yuzhneftegaz oil production association, which has proven hydrocarbon reserves of 90m tons. The bid is not disclosed, and the parties are still in negotiations in July, but when a contract is signed the investment pledge should exceed $500m.

● June 5 Trans-World Group, the London-based metal trader and producer, announces plans to build a new aluminium plant and boost production at an existing alumina plant in Pavlodar, in northern Kazakhstan. Value: $1.2bn to $1.5bn. The group says it hopes to create 5,000-10,000 jobs in the next three to five years.

● June 17 Samsung Deutschland, a German subsidiary of the Korean industry group, purchases a 40 per cent stake in the Zhezkazkantsvetmet copper plant in central Kazakhstan. Officials call the purchase price "a commercial secret". Samsung pledges to invest just over $1bn in the next 15 years and says it has already invested $200m.

● June 18 Ispat-Karmet, subsidiary of the British-based steel producer Ispat, announces the acquisition of 15 coal mines in northern Kazakhstan for $182m, including payments of old debts. The company has owned a nearby coal-fired power plant – bought for $2.4m – since April. Both companies are suppliers to Ispat's largest investment, the Karmet steel plant. Total investments this year: well over $200m.

● June 18 Asea Brown Boveri Holland, part of the Swiss-Swedish industry group, pledges to build, finance and operate a 320 megawatt power plant in Kazakhstan. The power plant should come on-line around the turn of the century. The final agreement may yet hit disagreements over electricity fees. Investments: $350m.

● July 3 A consortium of three Western gold companies, Teck, First Dynasty and Bakyrchik Gold, signs a contract for an 80 per cent stake in the Vasilkovskoye gold ore deposit, which has proven extractable reserves of 6.5m troy ounce. The group began negotiations in June with the offer of $360m and a bonus of $85m.

Forthcoming investments events: the purchase of a stake in the Aktyubinsk oil production association, which has with proven reserves of 200m tons. Exxon and Texaco are considering making a bid.

Sander Thoenes

■ **Trust management:** by Sander Thoenes

Cool capital, heated debate

The method of attracting investors to state industry is successful but controversial

In its bid to breathe new life into moribund state-owned enterprises the Kazakh government opted for a controversial alternative to privatisation, called trust management. Rather than sell off all its ailing industries through direct privatisation or liquidation of assets, the government has handed over the management of 65 of its largest enterprises, including most of its metals industry, to domestic and foreign investors.

Under the trust management scheme, the investor signs a contract for two to 10 years, pledging to boost production and pay off debts and overdue salaries. In return he gets full management control, a margin on the profits or sale revenues, and first choice in any privatisation. The government has the right to cancel the contract at any time it feels the obligations have not been met.

The trust management programme has been the subject of fierce debate. Even its architects admit that four out of 10 contracts have been a failure. Worse, the murky legal status of the trust management contracts has wreaked havoc on many of the smaller suppliers and customers of the enterprises involved. The new managers usually demanded and got the right to suspend existing contracts and debt payments on contracts they deemed unfair. In some cases, more than $100m in debts has been frozen, pushing numerous traders and suppliers into bankruptcy.

Mr Sarybai Kalmurzayev, chairman of the State Property Committee, defends the strategy. "We chose the lesser of two evils," he says. "The best option is a sale, a full-scale privatisation. But if an enterprise has not been producing for six or seven months, how can you say what its shares are worth? That's why companies were handed over to trust management. We want to get the enterprises back on their feet before selling them off."

"We had no choice but to freeze the debts. If these enterprises had collapsed completely, what guarantee would there be that any debts would ever be paid? The assets of Kazakh enterprises were not worth much to begin with."

According to Mr Alexander Mashkevich, president of Eurasiabank, whose operations are financed in part by Trans-World Group, a London-based metal trader and producer with interests in Russia, the programme is unusually progressive. "What is happening here is unprecedented," he says. "Investors come in, pay the debts, pay the salaries and promise to invest. For the state, this approach is simply ideal. We went to the government for example and said – we're ready to try." Within months of initially taking management control of three leading metallurgy plants, Eurasiabank purchased majority shares in all of them at sums officials call "a commercial secret". Mr Mashkevich says he has invested more than $1bn in the plants. In June he announced that together with Trans-World, Eurasiabank plans to spend $1.2bn building a new aluminium smelter at Pavlodar. It will use alumina from a nearby plant instead of importing it from abroad.

Metals: by Sander Thoenes

'Monsters' roar again

Foreign investment means metallurgy plants can once more be pillars of the economy

The conventional wisdom among foreign investors in the former Soviet Union is that the giant metallurgy plants that dot tha 15 republics are a write-off – too inefficient, too old, too deeply in debt, and simply too hig to become profitable.

In Kazakhstan that conventional wisdom has been proven wrong. Two years ago, most of the mines and smelters were on the verge of closure, some had debts of up to $500m, unpaid employees and production lines that were at s standstill. The break-up of the Soviet Union had deprived them of traditional customers in Russia, while the Kazakh government had run out of funds to subsidise them.

In addition, many Soviet-era factory directors had plundered assets, selling off metal cheaply and signing unprofitable supply contracts for kickbacks. Samsung, the Korean conglomerate that signad a management contract for a copper smelter, was one company that discovered such abuse. It found that $190m was missing at the Zhezkazkantsvetmet copper smelter it took over in central Kazakhstan. "We were very surprised about the way the previous management went about its business," Mr Jong-Wan Lim, commercial director, says. "A lot of contracts were fictitious, and the money had disappeared."

Samsung subsequently bought 40 per cent of the Zhezkazkantsvetmet plant and hopes to obtain a majority share later this year. It has invested $200m, has already doubled production to 18,000 tons of copper a month, and plans to invest another $1bn over the next 15 years.

Mr Alexander Mashkevich, vice president of Eurasiabank, an Almaty-based investment bank that specialises in metals, remembers how another such plant almost went bankrupt. "Tha Yermakov Ferroalloy Plant was a monster, the largest in the world – one million tons a year," he says, sitting in his alegant office besides a giant Kazakh flag. "But nobody cared where the metal went, and it almost died. Nobody thought about money or had any idea what a market was. They didn't even know what assets or liabilities were."

Eurasiabank now owns the Yermakov factory, along with a nearby chrome mine and a second smelter. It also owns the Pavlodar aluminium plant and the Sokolovsko-Sarbaiskoye iron ore mine and has revived production at four of these five enterprises.

In the past year, most of Kazakhstan's large metal mines and smelters have been sold off to private investors, mostly foreign. As well as Samsung, they include Gerald Metals, Glencore, and Kazkommerts-Bank, a leading Kazakh private bank that has gained control over three large lead and zinc plants near Ust-Kamenogorsk, and World Wide Minerals. The last is a Toronto-based mining company that won a tender for the exclusive right to negotiate a management contract for a substantial mining and processing complex for uranium, gold, industrial diamonds and phosphates in Stepnogorsk.

Of the metallurgy plants, only the Balkhashmed copper smelter is still up for grabs. But investors have been circling around that plant as well.

Since new investors have moved in, most have boosted production and their success has encouraged others. Getting the metals out of the country has been a challenge (see infrastructure story, page 6) and metal prices have been weak, but margins and cash flow have been sufficient to allow for self-financed expansion of output. "The enterprises have started to breathe again," Mr Mashkevich says.

This is of vital importance for the Kazakh economy. Metal exports accounted for 45 per cent of export revenues in 1995, compared with only 33.5 per cent for oil and gas, the country's more famous commodities. A boom in metal exports could bring the cash-starved Kazakh budget quick and sizeable revenues. By contrast, it will take several years for the oil and gas fields to yield such income.

Output of metals (thousand tonnes)

	1993	1994	1995
Iron	5,705.0	4,822.5	7,211.5
Rolling steel	3,436.0	2,356.9	2,140.9
Chrome	2,620.0	2,102.8	2,416.8
Ferroalloys	776.6	635.3	782.3
Refined copper	317.5	278.4	255.6
Zinc	238.5	172.5	169.1
Gold	13.7	14.1	14.8

Source: Ministry of Finance/ABN-AMRO Hoare Govett

Karmet steel plant: by Anthony Robinson

New jobs, new markets

How the giant mill is at last adjusting to the modern economy

When the Karaganda Metal Complex (Karmet), emerged in the early 1960s from the featureless steppe near the village of Timirtau, 20kms north of Karaganda in central Kazakhstan, it was hailed as a triumph of Soviet labour.

Today, building an integrated steel mill with the capacity of Karmet – 6m tons a year – would cost an estimated $8-10bn.

But times and technology have moved on. Steel companies now opt for cheaper, less polluting and more productive minimills. The days of giant plants are over.

Karmet, and plants like it all over the former Soviet Union, have had difficulty in adjusting to the nascent market economy.

But what has happened here over the past eight months indicates that there could still be a prosperous future for plants that until recently were dismissed as dinosaurs.

Karmet, formerly the second largest steel plant in the entire Soviet Union, used to account for around 12 per cent of Kazakhstan's total gross domestic product. All the steel it could produce was absorbed by insatiable, Moscow central planners.

But it became one of the main victims of the new era of uncertainty. Its Soviet-era managers floundered and then plundered the plant. Attempts to replace them with western "contract managers" failed dismally. Voest Alpine of Austria and then US steel, together with Eisenberg, an Israeli steel group, tried briefly but unsuccessfully to pull the plant back from the brink of extinction last year.

With an air of increasing desperation, the Kazakh president, Mr Nursultan Nazarbayev, who began his career as a steelworker at Karmet and ended up as the plant's communist party secretary, searched for a solution.

For a while, it looked as though Mr Alexander Mashkevich, the managing director of Eurasiabank, might be the answer. An Almaty-based investment bank with close Russian and Israeli connections, Eurasia controls the Sokolkovsko-Sarbaisky iron ore mine 500kms west of Karmet that supplies the steel complex. It looked at Karmet but preferred to invest in a new aluminium refinery at Pavlodar in north eastern Kazakhstan instead.

But last November the fate of the run-down plant, deprived of all but the most essential repair and maintenance work for five years, took a new turn. Ispat, a London-based private steel company founded and owned by an Indian businessman, Mr Lakshmi Mittal, and his wife, won a competitive tender that made Ispat 100 per cent owner of a new company, Ispat-Karmet.

A rump company, Karmet Combinat, was left with responsibility for most past debts, many of which reflected fraudulent trading by previous management.

Ispat was originally offered a management contract, but it made clear that it would only assume responsibility for the plant if it were allowed to buy it outright,

> Investments should total $500m over the next five years

and on a virtually debt-free basis. "Ispat refused to assume responsibility for around $300m in unpaid electricity and other bills. But it did pay us for unpaid iron ore deliveries and some other essential suppliers," says Mr Mashkevich.

"Ispat was lucky. It came when the government was desperate to find a solution for Karmet, but when it was clear that it was possible for foreigners to invest and do business here," he adds.

Ispat agreed to pay around $450m for Karmet's assets and a few selected debts. The net purchase price was under $270m. But it also undertook to invest another $500m over the next five years to reduce pollution and raise efficiency.

Psychologically, Ispat's most important move was to agree to pay around $9m in back pay to the 30,000 workers whom the cash-strapped former management had left without wages for up to six months.

Since buying Karmet, Ispat has also bought the 435mw coal-fired power plant that supplies heat and power to the steel complex and to all the homes and offices in Timirtau. It is now renovating the power plant before closing down the smaller, but inefficient and highly polluting, 150mw plant inside Karmet itself.

To secure cheap coal supplies to both the power plant and the steel complex, Ispat also paid $193m for 15 coal mines in the nearby Karaganda coal field, whose existence originally attracted Ispat to Kazakhstan. This deal ensures access to both steam coal and, above all, to more than 1bn tons of high quality coking coal (see story, right).

With domestic demand virtually non-existent, at present production for export is the key to raising output to full 6m-ton capacity within the next three years. Priority investments are a new $43m pickling plant ordered from Mannesmann of Germany and the replacement of coking ovens with more efficient and less polluting equipment.

Looking further ahead, Ispat sees the greatest profit potential in producing for a local market that presently does not exist.

Under the Soviet system, Kazakhstan produced steel and other basic industrial products and delivered them to manufacturing plants in Russia and other more industrialised republics. "But," says Mr Malay Mukherjee, Ispat-Karmet's general manager, "this plant produces tin plate as well as hot and cold rolled steel products, making it ideal for local consumer goods industries such as food processing."

Although these industries are few and far between in the area at present, Mr Mukherjee believes it is only a question of time before they develop. "The fertile black earth zone begins 50kms north of here. There is great potential for meat, fruit and vegetable processing," he says.

"The Asian Development Bank is interested in financing such projects. We will also offer incentives for foreign and local investors to set up plants that can be built from our construction steel and fed with rolled products for cans and packaging."

By eliminating the heavy costs of transporting steel thousands of miles to export markets, Ispat-Karmet hopes to make the profits needed to re-generate Karmet and to become a catalyst for wider industrial restructuring – creating new jobs, new consumer products and a big new captive market for Karmet.

Coal: by Anthony Robinson

Security for 100 years

By buying 15 mines, Ispat-Karmet is providing for its long-term future

It was not the prospect of owning Karmet, one of the world's largest steel mills, that first attracted the London-based private company, Ispat, to Kazakhstan, but the existence of one of the world's largest deposits of good quality coking coal.

"Iron ore deposits are being discovered around the world every day. The world is awash in iron. But coking coal is hard to find and becoming increasingly expensive. It was the search for coal which brought us to Karaganda," Mr Malay Mukherjee says.

Mr Mukherjee, a Bengali from Calcutta who was the former manager of Ispat's Mexican steel mill, is now in overall charge of Ispat-Karmet, the coal mines that supply it and the heat and power station that feeds both the steel plant and the town of Timirtau.

It was while checking out the 21 coal mines of the Karaganda Coal Combine last autumn that Mr Johannes Sittard, who scours the world for Ispat checking out potential acquisitions, was asked by the Kazakh government to cast his eye over the troubled Karmet steel combine 15kms away. Acquiring the steel complex then made it doubly important for Ispat to buy the coal mines that were the original target.

"Acquiring the coal mines makes a big difference to the overall economics of the steel plant. We will now invest what is needed to raise mining productivity and reduce costs," Mr Mukherjee says.

Proximity to the Karaganda coal mines was the main reason why Karmet was built in the first place. When working at full capacity the blast furnaces and power plants consume 11m tons of coking coal and 2.5m tons of steam coal a year.

Over the first six months of this year, the Karaganda Coal complex produced various grades of coal at an annual rate of around 16m tons, and employed 40,000 miners and support workers. It is one of the richest coal fields in Kazakhstan. At Ekibastus, 400kms to the north east, lies another shallow deposit whose vast opencast mines feed local power stations and supply steam coal to factories in north eastern Kazakhstan and southern Siberia.

Most of Karaganda's coal output is consumed by Karmet and a few other large cement, engineering and military factories in the area. The rest is taken by the energy and heating plants that provide power and central heating to the 400,000 inhabitants of the city of Karaganda and the 100,000 residents of Timirtau.

Ispat's takeover of Karmet broke the circle of non-payment that threatened the imminent collapse of the entire local economy. It first agreed to pay the wages backlog of the Karmet workers and then extended a lifeline to the mines – by paying cash for coal – and to the equally cash-starved railway system.

Ispat's track record at Karmet helped consummate the acquisition of its original target, the Karaganda coal mines. The

> 'The unions know workers have an assured market for coal'

company only really wanted seven mines. But in the end it agreed to take on 15 of the 21 mines whose output was directly relevant to Ispat-Karmet's needs. Several of the other, mainly open-cast mines, will probably be closed.

Ispat made an initial investment of $193m in order to acquire its 15 mines, which currently employ 29,000 people. More importantly, it has also acquired access to a deposit of high quality coking coal that is bigger than 1bn tons – "enough to last well over a century," as Mr Mukherjee puts it.

A technical survey undertaken by a UK-based coal consulting firm that did a lot of work on the privatisation of British Coal, found that the mines had been well designed. But they had been starved of maintenance and needed new coal-cutting equipment and other machinery.

"We did not take any of the open cast mines, which remain in state hands. But tha underground mines are relatively shallow – between 100 and 500 metres deep – and with thick seams of between 3 to 15 metres. They are ideal for modern long-wall mining methods," Mr Mukherjee says.

The scope for higher productivity and lower costs is substantial and will lead to job losses, both in the mines and the steel complex. But Ispat's willingness to give backpay to the 75 per cent of mine workers who had gone without wages for up to six months under the previous state owners, has given them credibility with the unions and the workers.

"The mining union knows that with Ispat as owners, the workers have an assured market for their coal. The union's top priority is to secure as many jobs as possible. It also wants wage indexation to protect itself against the inflation that ravaged incomes even when they were paid," Mr Mukherjee says.

Until now Ispat has relied on natural wastage and incentives for early retirement to reduce payrolls and has not resorted to compulsory redundancies. But with plans to invest more than $200m in the coal mines over the next few years many jobs will inevitably go.

"We will not be able to continue to employ so many people directly. But by investing in new coke ovens at Karmet, for example, we will produce coal-based chemical by-products worth around $25m a year. We could just ship the chemicals out and sell on world markets. What we would rather do is provide incentives for other investors to come here and set up consumer-orientated plastic and other plants around the Ispat-Karmet complex," Mr Mukherjee explains.

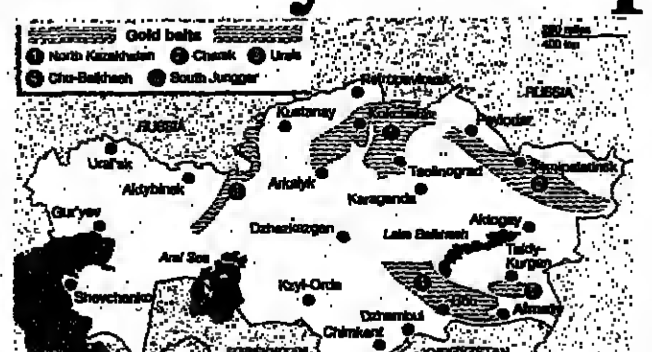
In this way redundant miners, steelworkers and their wives will be able to get new jobs in new industries. Meanwhile, wage and salary levels will rise for the fewer but more productive steelworkers and miners in the renascent mines and steelworks of the future.

Before now, the people of Timirtau have had only one employment option in the Soviet-style company town. If Karmet's broader plan to attract other investors goes well it could underpin the development of a more democratic society where people have greater choice and where workers and their families are no longer dependent on a single employer – the state.

Gold: by Sander Thoenes

Perils of the yellow prize

Why, for western ventures, the rewards of gold exploration may be a long time coming



To take a look at the map on the right is to take a look at the hard-rock mineral wealth of Kazakhstan.

"This is one of the best endowed regions in the world," says Mr Kenneth Arne, general manager of the gold mining company, Kazakhstan Minerals Corp.

The country's president, Mr Nursultan Nazarbayev, says foreign investments could help Kazakhstan boost annual gold production from 14 tons in 1994 to at least 42 tons before the end of the century. Mr Serikbek Daukeyev, the geology minister, recently said the country's gold reserves were worth $52.3bn.

Since the total size of deposits is kept secret, Mr Daukeyev's claim is hard to verify hut it forms part of the simple logic that has drawn dozens of gold producers to Kazakhstan. "Big is big," says Mr Robert Friedland, whose group of investors has pledged more than $500m to the country's two largest gold mines, Bakyrchik and Vasilkovskoye. "We'll all be dead before we run out of gold here."

Mr Friedland leads a consortium of three Western gold companies, Teck, First Dynasty and Bakyrchik Gold, which last week signed a contract for an 80 per cent stake in the Vasilkovskoye gold ore deposit. The mine, in northern Kazakhstan, has provan extractable reserves of 6.5m troy ounce, making it tha fourth largest undeveloped site in the world.

The group pledged to invest $360m and offered an $85m bonus and undisclosed royalties, in return for its stake.

Many leading gold companies have been sceptical about the bidding since last year when the Kazakh government snatched away the licence from one venture, cancelled the tender and then handed it directly to Placer Dome of Canada. Placer Dome backed out after it had paid $35m up front, forcing tha government to start from scratch.

The tender was a showcase, designed to repair Kazakhstan's image among Western banks and goldminers after the Placer Dome fiasco. "Wa are learning from our mistakes," says Mr Marat Bitimbayev, deputy minister for geology.

Companies may find other problems once bids succeed. Of the state's gold ventures only Bakyrchik is currently producing gold, and even thet exploration is making a loss.

Since taking over Bakyrchik, Mr Friedland has dropped the venture's innovative but inefficient leaching technology in favour of more traditional roasting equipment from Lurgi, a division of Metallgesellschaft in Germany.

Production reached its initial goal of 39,000oz recently, Mr Friedland says, adding that the target for late 1998 is 250,000oz.

"There hasn't really been a success story here yet and there's a couple of people who have shot themselves squarely in the foot. You have to be a whola lot more patient here," says Mr Arne of Kazakhstan Minerals Corp.

"The difficult thing is tha remoteness of the location. It's hard to attract Western staff. And it still takes a long time to negotiate. This country does not have the regulations we're used to in the West. The thinking here is still very much command and control."

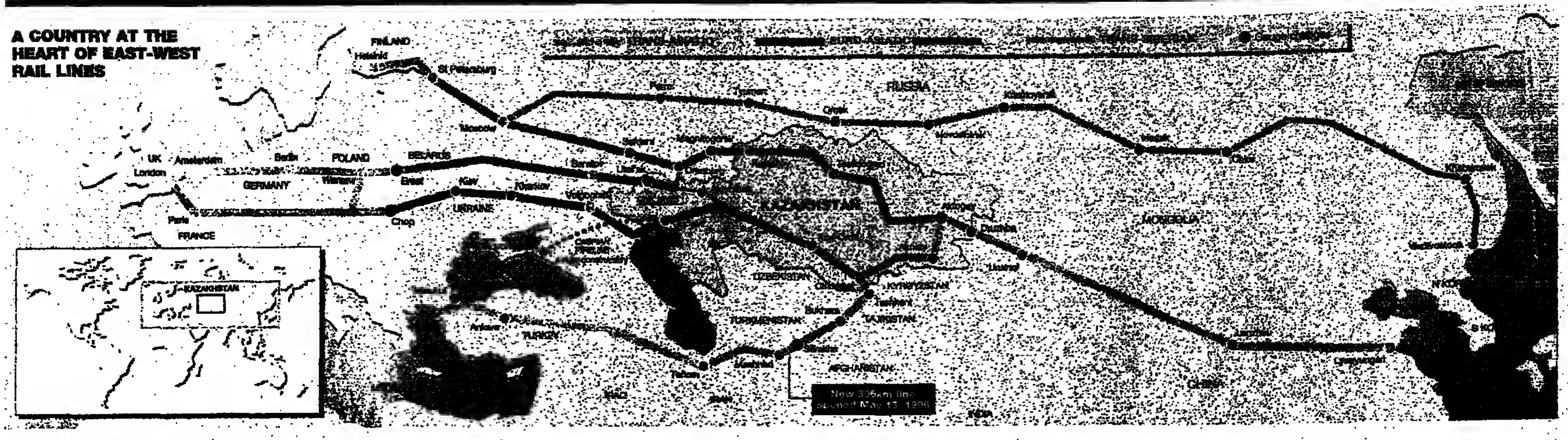
The president has decreed that gold can be freely exported, but with only one producing mine to set a precedent, many ventures are still unsure how this edict will work in practice. "The law is deliberately vague," says Mr Alexander Lesser, a lawyer for Squire, Sanders & Dempsey in Almaty.

Legislation allows for exports of refined gold, but the only operating refinery charges several times the Western rate because it has been unable to cut costs by hedging the gold it processes. Unrefined gold can be exported but, after refining, is subject to sale at primary auctions within Kazakhstan. The National Bank and the Finance Ministry have first right of refusal. It is here where most of the confusion arises: "The law does *not* say the gold has to be re-imported," notes Mr Lesser.

Another concern is a draft law on taxation of mineral resources, which establishes royalties, bonuses and excess profit taxation. Some gold producers feel such a law would render their projects unprofitabla because it treats gold and oil ventures equally, without accounting for the additional expenses incurred by gold exploration and extraction. The draft is still being debated in the government, however, and some lobbyists are confident it will be rewritten.

"This is not a tax haven," says Mr Arne. "It's a trade-off. You've got good geology. But yon can't come here and expect to get away without paying taxes. It's pretty comparable to what we'd expect in the West."

6 KAZAKHSTAN



■ **Infrastructure:** by Anthony Robinson

On the right tracks

Connections are good, but funding could be better

Seen from Europe, indeed seen from most places, Kazakhstan is a very long way away. It is also very, very big. But its location at the very heart of the Eurasian landmass makes this independent former Soviet republic a convenient place from which to supply basic industrial, food and other products to the fast-growing markets of northern China to the east as well as to the middle east and Turkey – which seen from Kazakhstan lie to the west through Iran.

Kazakhstan is also a supplier to Russia, and to the industrial cities of southern Siberia just across its northern border.

Half the size of the US and bigger than the whole of western Europe, Kazakhstan has been endowed with fertile rolling prairies and world-class deposits of oil, gas, coal, and ferrous and non-ferrous metals. Totally landlocked, it is dependent on the goodwill of its neighbours for access to the wider world.

For such a country, railways are crucial. In Soviet times Kazakhstan was fully integrated into the Soviet rail network. All the main Eurasian and Trans-Asian, east-west lines run across its territory. Of the 14,000kms of main line some 3,600kms are electrified and mostly double track.

The most heavily used line is that running from Almaty across the endless steppe, through the coalfields and metal plants of Karaganda and on to Petropavlosk in industrialised southern Siberia. Here it interconnects with the Trans-Siberian railway.

Last year, the railways carried just under 180m tons of freight, less than half the Soviet-era load when traffic was more than a million tons a day. Since the collapse of the Soviet Union, Russia has either not paid the Kazakh railways for transit or only paid through barter. This has left many wagons and locomotive idles and meant no money for new rolling stock or maintenance.

This year, however, has seen a recovery as several big metallurgical plants and coal mines have been privatised and re-invigorated. Not only are volumes up but the railways actually get paid cash, sometimes even in advance, by the new capitalist owners.

With a bumper harvest in prospect and international cereals traders active, the railways are also hauling more fertiliser this year and are preparing to export up to 3.5m tons of grain.

In addition, significant sectors of the economy are now under private ownership and as massive foreign investment starts to flow into world-scale oil, gas, gold and other projects, the need for an efficient road, rail, air and pipeline infrastructure is of growing importance.

Compared with many other countries, Kazakhstan is not badly off. "We were pleasantly surprised: The infrastructure here is a lot better than the Altopiano of Peru or the Australian outback where we have equivalent operations," says Mr Kenneth Arne of Kazminco, which has ambitious gold mining projects just starting up in the state.

But off the few main roads that have all-weather tarmac surfaces, most of the country is linked by rudimentary mud-tracks; state-owned Kazakhstan Airlines, with its ancient gas-guzzling Soviet planes is virtually bankrupt and every part of the infrastructure needs heavy investment in maintenance and modernisation after years of enforced neglect. The necessary capital may only be raised with the urgency required if "strategic" transport industries are opened up to privatisation.

■ **Oil:** by Sander Thoenes

Exploiting the fields of dreams

The construction of a new pipeline should help companies tap the country's vast reserves

When a well at the Tengiz oil field in western Kazakhstan caught fire in 1985, the flames raged for 444 days and consumed more than 1m tons of oil before workers managed to close the well. Throughout the blaze, pressure meters at the other wells of the field barely blinked.

"The field is so big it was almost like taking a drop out of a swimming pool," says Mr Nick Zana, director general of Tengizchevroil, the Chevron and Mobil venture that has been producing oil at the field since 1993.

Tengiz, located onshore in the north east Caspian sea area is estimated to have extractable reserves of at least 800m tons of oil, making it one of the world's largest deposits. "This is a once-in-a-lifetime opportunity," says Mr Zana. "How often can an oil man say 'I run a super giant oil field?'"

It is stories like these that have drawn most of the world's other leading oil companies to Kazakhstan, despite the risks of operating in this barren and economically depressed country.

For the first few years of Kazakhstan's independence, many of the larger oil companies kept a low profile, mainly because there was no reliable export route. The only existing pipelines to Western markets run through Russia, which has been unable, and many say unwilling, to grant Kazakhstan significant access.

In April this year, however, Russia, Kazakhstan and Oman ended years of haggling by signing an accord on the construction of the Caspian Pipeline, from western Kazakhstan to the Russian port of Novorossiisk.

The three countries agreed to invite private investors to take a 50 per cent stake. Chevron, Mobil, the Russian oil companies Lukoil and Rosneft, British Gas, Agip of Italy, Oryx of the US and the Kazakh state company, Munaygaz, all pledged to invest and hope to sign a contract later this year. The pipeline, to be completed in the first decade of the next century, should be able to pump 60m tons a year, three times the country's current annual production.

A flurry of deals followed the agreement. Within a week after the Caspian Pipeline Consortium deal was signed, Mobil announced it would purchase half of the government stake in Tengizchevroil for $1.1bn. Royal Dutch Shell joined in on the Caspian Pipeline Consortium a few weeks later by pledging to finance Rosneft's share. Vitol, the Dutch oil trader, in June bought a 90 per cent stake in the country's largest oil refinery at Chimkent, in the far south. Further north, Samson, a US oil company, is negotiating the purchase of a majority stake in the Yuzhneftegaz oil production association, the refinery's main supplier.

On August 1, Exxon and Texaco are expected to bid for the large Aktyubinsk production association, which has rights to the Zhanazhol oil field that is estimated to hold 200m tons of oil. Amoco hopes to finalise negotiations later this year on a sizeable exploration project just south of Tengiz. These oil contracts alone could triple foreign investment in Kazakhstan, estimated at roughly $1bn in 1995.

"You go where the oil is," says Mr Carl Burnett, president of Mobil Oil Kazakhstan. "Tengiz will be very expensive to develop – deep, high pressure, sour. But there's a lot of oil."

Later this summer, the KCS consortium of seven Western oil companies and one Kazakh concern will finish collection of seismic data on the 100,000 square kilometres of the Kazakh shelf, the largest exploration in the world. Some Kazakh officials have predicted that the hydrocarbon reserves could be four times as large as Tengiz.

The KCS consortium members, Agip, British Gas, Mobil, Total, Shell and an alliance of British Petroleum and Statoil, have been promised 12 blocks on the field. But negotiations on a production sharing agreement have been well behind schedule. The members want minimal exposure in the first few years and early returns on their exploration costs, but the government is intent on drawing in as much Western investment as early as possible.

The Caspian Pipeline will not be ready for at least another three years, however, and until then oil production and revenues, vital to economic recovery, are unlikely to rise sharply. The lack of an export route and a drop in domestic consumption in recent years has actually forced Kazakhstan to lower production from 26m tons in 1992 to just over 20m tons last year.

Tengizchevroil hopes to double production by the end of this year and reach a capacity of 8.5m tons by the end of 1998, but Mr Zana says his venture intends to limit additional investments to whatever revenues can finance. This means he has had to cut costs, consider a hiring freeze and develop alternative marketing strategies. He now sends oil by train to Finland, markets it inside the former Soviet Union and ships it up the Volga river, down the Don and into the Black Sea to the West.

The Kazakh government has been looking for alternative routes as well. The president, Mr Nursultan Nazarbayev, in May agreed with his Iranian counterpart to ship 2m tons a year, and later 6m tons, to northern Iran. In return, Iran will hand over oil of equivalent value to customers of Kazakhstan at a port on the Persian Gulf. When the governments agree on the details and the ports have been upgraded to handle the loads, a mix of Tengiz and other crude oil will be shipped to Iran from the port of Aktau, officials say.

The US government enforces a tough boycott against Iran but has not objected to the arrangement, provided US companies are not involved.

Mr Zana says the Kazakh government has the right to purchase its share of oil production from Tengiz for shipments to Iran but insists Tengizchevroil has no role in the deal. No matter which routes are chosen, he is confident: "The oil will flow out of Kazakhstan and wealth will come to Kazakhstan."